63

LACKING SEVERAL ISSUES

Release

Communiqué

From the Office of

Honourable Allan J. MacEachen
Deputy Prime Minister
and Minister of Finance

House of Commons, Ottawa

Du Cabinet de

l'honorable Allan J. MacEachen
vice-premier ministre
et ministre des Finances

Chambre des communes, Ottawa

82-01

Tuesday, January 5, 1982

Official International Reserves

Deputy Prime Minister and Minister of Finance Allan J. MacEachen announced today the level and composition of Canada's official international reserves on December 31, 1981, as follows:

(Millions of U.S. Dollars)

U.S. Dollars		2,865.3
Other Foreign Currencies		95.8
Gold		833.7
Special Drawing Rights		174.0
Reserve Position in IMF		402.4
Total:	December 31, 1981	4,371.1
	November 30, 1981	4,555.1
	Change	-184.0

The change in reserves in December included a decrease of $21.5 million in SDR-denominated assets reflecting depreciation of the U.S. dollar value of the SDR.

The change also included a fall in the book value of gold holdings of $7.7 million and an increase in U.S. dollars of $79.4 million due to sales of 190 thousand ounces of gold. On December 31, gold holdings stood at 20.5 million ounces.

82-01

le mardi 5 janvier 1982

Réserves officielles de liquidités internationales

Le Vice-premier ministre et ministre des Finances, Allan J. MacEachen,a publié ce matin l'état des réserves canadiennes officielles de liquidités internationales arrêté le 31 décembre 1981:

(En millions de dollars E.U.)

Dollars E.-U.		2,865.3
Autres devises étrangères		95.8
Or		833.7
Droits de tirage spéciaux		174.0
Position active au FMI		402.4
Total:	31 décembre 1981	4,371.1
	30 novembre 1981	4,555.1
	Variation	-184.0

La variation des réserves en novembre comportait une baisse de $21.5 millions en raison de le dépréciation de la valeur en dollars américains des avoirs libellés en droits de tirage spéciaux.

La variation comportait également une diminution de $7.7 millions de la valeur comptable des avoirs d'or et une augmentation de $79.4 millions en dollars américains par suite de la vente 190 mille onces d'or. Au 31 décembre,les avoirs d'or s'élevaient à 20.5 millions d'ounces.

..../2

Canada

The change also included a repayment of U.S. $400 million under the standby credit facility with the Canadian chartered banks. On December 31, no drawings were outstanding on this facility or on the facility with U.S. and other foreign banks.

Un remboursement de $400 millions a été effectué sur la ligne de crédit renouvelable auprès des banques à charte canadiennes. Il n'existe à l'heure actuelle aucun encours sur les lignes de crédit.

Department of Finance
Canada

Information Division
Ottawa, Ont. K1A 0G5
(613) 992-1573

Ministère des Finances
Canada

Division de l'Information
Ottawa (Ont.) K1A 0G5
(613) 992-1573

Release

Communiqué

82-04

For immediate release

Ottawa, January 15, 1982

Finance Minister Allan J. MacEachen released today the regular monthly statement of the government's financial operations for November 1981 and the first eight months of the 1981-82 fiscal year.

For November, budgetary revenues were $4,526 million, expenditures were $5,439 million and there was a deficit of $913 million. For November 1980, revenues were $3,766 million, expenditures were $4,519 million and there was a deficit of $753 million.

For the first eight months of the 1981-82 fiscal year, budgetary revenues were $34,699 million, expenditures were $41,870 million and there was a deficit of $7,171 million. For the same period last year, revenues were $27,899 million, expenditures were $36,669 million and there was a deficit of $8,770 million.

Publication immédiate

Ottawa, le 15 janvier 1982

Le Ministre des Finances, Allan J. MacEachen a publié aujourd'hui l'état mensuel régulier des opérations financières du gouvernement pour le mois de novembre 1981 et les huit mois de l'année financière 1981-82.

Les chiffres budgétaires de novembre s'établissent ainsi: recettes $4,526 millions, dépenses $5,439 millions, d'où un déficit de $913 millions. Les chiffres de novembre 1980 s'établissaient ainsi: recettes $3,766 millions, dépenses $4,519 millions, d'où un déficit de $753 millions.

Les huit premier mois de l'année financière 1981-82 ont produit des recettes budgétaires de $34,699 millions, dépenses de $41,870 millions, d'où un déficit de $7,171 millions. La période correspondante de l'an dernier avait donné des recettes de $27,899 millions, des dépenses de $36,669 millions et un déficit de $8,770 millions.

Canada

Department of Finance
Canada

Ministère des Finances
Canada

Information Division
Ottawa, Ont. K1A 0G5
(613) 992-1573

Division de l'Information
Ottawa (Ont.) K1A 0G5
(613) 992-1573

Release

Communiqué

82-20

For immediate release

Ottawa, February 11, 1982

Finance Minister Allan J. MacEachen released today the regular monthly statement of the government's financial operations for December 1981 and the first nine months of the 1981-82 fiscal year.

For December, budgetary revenues were $4,832 million, expenditures were $5,810 million and there was a deficit of $978 million. For December 1980, revenues were $4,176 million, expenditures were $4,850 million and there was a deficit of $674 million.

For the first nine months of the 1981-82 fiscal year, budgetary revenues were $39,531 million, expenditures were $47,680 million and there was a deficit of $8,149 million. For the same period last year, revenues were $32,075 million, expenditures were $41,519 million and there was a deficit of $9,444 million.

Publication immédiate

Ottawa, le 11 février 1982

Le Ministre des Finances, Allan J. MacEachen a publié aujourd'hui l'état mensuel régulier des opérations financières du gouvernement pour le mois de décembre 1981 et les neuf mois de l'année financière 1981-82.

Les chiffres budgétaires de décembre s'établissent ainsi: recettes $4,832 millions, dépenses $5,810 millions, d'où un déficit de $978 millions. Les chiffres de décembre 1980 s'établissaient ainsi: recettes $4,176 millions, dépenses $4,850 millions, d'où un déficit de $674 millions.

Les neuf premiers mois de l'année financière 1981-82 ont produit des recettes budgétaires de $39,531 millions, dépenses de $47,680 millions, d'où un déficit de $8,149 millions. La période correspondante de l'an dernier avait donné des recettes de $32,075 millions, des dépenses de $41,519 millions et un déficit de $9,444 millions.

Canada

Release

From the Office of

Honourable Allan J. MacEachen
Deputy Prime Minister
and Minister of Finance

House of Commons, Ottawa

Communiqué

Du Cabinet de

l'honorable Allan J. MacEachen
vice-premier ministre
et ministre des Finances

Chambre des communes, Ottawa

82-26

Tuesday, March 2, 1982

Official International Reserves

Deputy Prime Minister and Minister of Finance Allan J. MacEachen announced today the level and composition of Canada's official international reserves on February 28, 1982, as follows:

(Millions of U.S. Dollars)

U.S. Dollars		1,862.6
Other Foreign Currencies		289.7
Gold		804.7
Special Drawing Rights		156.2
Reserve Position in IMF		387.3
Total:	February 28, 1982	3,500.5
	January 31, 1982	4,297.7
	Change	-797.2

The change in reserves in February included a decrease of $25.8 million in SDR-denominated assets reflecting depreciation of the U.S. dollar value of the SDR.

The change also included a fall in the book value of gold holdings of $1.8 million and an increase in U.S. dollars of $18.5 million due to sales of 45 thousand ounces of gold. On February 28, gold holdings stood at 20.4 million ounces.

82-26

Le mardi 2 mars 1982

Réserves officielles de liquidités internationales

Le Vice-premier ministre et ministre des Finances, Allan J. MacEachen a publié ce matin l'état des réserves canadiennes officielles de liquidités internationales arrêté le 28 février 1982:

(En millions de dollars E.-U.)

Dollars E.-U.		1,862.6
Autres devises étrangères		289.7
Or		804.7
Droits de tirage spéciaux		156.2
Position active au FMI		387.3
Total:	28 février 1982	3,500.5
	31 janvier 1982	4,297.7
	Variation	-797.2

La variation des réserves en février comportait une baisse de $25.8 millions en raison de la dépréciation de la valeur en dollars américains des avoirs libellés en droits de tirage spéciaux.

La variation comportait également une diminution de $1.8 millions de la valeur comptable des avoirs d'or et une augmentation de $18.5 millions en dollars américains par suite de la vente 45 mille onces d'or. Au 28 février, les avoirs d'or s'élevaient à 20.4 millions d'onces.

Canada

Department of Finance
Canada

Information Division
Ottawa, Ont. K1A 0G5
(613) 992-1573

Ministère des Finances
Canada

Division de l'Information
Ottawa (Ont.) K1A 0G5
(613) 992-1573

Release

Communiqué

82-32

For immediate release

Ottawa, March 15, 1982

Finance Minister Allan J. MacEachen released today the regular monthly statement of the government's financial operations for January 1982 and the first ten months of the 1981-82 fiscal year.

For January, budgetary revenues were $4,998 million, expenditures were $5,593 million and there was a deficit of $595 million. For January 1981, revenues were $4,352 million, expenditures were $5,387 million and there was a deficit of $1,035 million.

For the first ten months of the 1981-82 fiscal year, budgetary revenues were $44,529 million, expenditures were $53,273 million and there was a deficit of $8,744 million. For the same period last year, revenues were $36,427 million, expenditures were $46,906 million and there was a deficit of $10,479 million.

Publication immédiate

Ottawa, le 15 mars 1982

Le Ministre des Finances, Allan J. MacEachen a publié aujourd'hui l'état mensuel régulier des opérations financières du gouvernement pour le mois de janvier 1982 et les dix premiers mois de l'année financière 1981-82.

Les chiffres budgétaires de janvier s'établissent ainsi: recettes $4,998 millions, dépenses $5,593 millions, d'où un déficit de $595 millions. Les chiffres de janvier 1981 s'établissaient ainsi: recettes $4,352 millions, dépenses $5,387 millions, d'où un déficit de $1,035 millions.

Les dix premiers mois de l'année financière 1981-82 ont produit des recettes budgétaires de $44,529 millions, dépenses de $53,273 millions, d'où un déficit de $8,744 millions. La période correspondante de l'an dernier avait donné des recettes de $36,427 millions, des dépenses de $46,906 millions et un déficit de $10,479 millions.

Canada

Release

From the Office of

Honourable Allan J. MacEachen
Deputy Prime Minister
and Minister of Finance

House of Commons, Ottawa

Communiqué

Du Cabinet de

l'honorable Allan J. MacEachen
vice-premier ministre
et ministre des Finances

Chambre des communes, Ottawa

82-38

Friday, April 2, 1982

Official International Reserves

Deputy Prime Minister and Minister of Finance Allan J. MacEachen announced today the level and composition of Canada's official international reserves on March 31, 1982, as follows:

(Millions of U.S. Dollars)

U.S. Dollars		1,531.0
Other Foreign Currencies		108.0
Gold		792.9
Special Drawing Rights		154.2
Reserve Position in IMF		382.6
Total:	March 31, 1982	2,968.8
	February 28, 1982	3,500.5
	Change	-531.7

The change in reserves in March included a decrease of $16.9 million in SDR-denominated assets reflecting depreciation of the U.S. dollar value of SDR.

The change also included a fall in the book value of gold holdings of $2.0 million and an increase in U.S. dollars of $22.1 million due to sales of 50 thousand ounces of gold. On March 31, gold holdings stood at 20.4 million ounces.

82-38

le vendredi 2 avril 1982

Réserves officielles de liquidités internationales

Le Vice-premier ministre et ministre des Finances, Allan J. MacEachen a publié ce matin l'état des réserves canadiennes officielles de liquidités internationales arrêté le 31 mars 1982:

(En millions de dollars E.-U.)

Dollars E.-U.		1,531.0
Autres devises étrangères		108.0
Or		792.9
Droits de tirage spéciaux		154.2
Position active au FMI		382.6
Total:	31 mars 1982	2,968.8
	28 février 1982	3,500.5
	Variation	-531.7

La variation des réserves en mars comportait une baisse de $16.9 millions en raison de la dépréciation de la valeur en dollars américains des avoirs libellés en droits de tirage spéciaux.

La variation comportait également une diminution de $2.0 millions de la valeur comptable des avoirs d'or et une augmentation de $22.1 millions en dollars américains par suite de la vente 50 mille onces d'or. Au 31 mars, les avoirs d'or s'élevaient à 20.4 millions d'onces.

..../2

Canada

The change also included a decrease of U.S. $162.9 million, equivalent to 300 million Swiss francs, this being the net result of a private placement of SFr 400 million of notes in the Swiss capital market and the redemption of a SFr 700 million fixed-term bank loan.

Cette variation comprend également une baisse de $162.9 millions E.-U., soit l'équivalent de 300 millions en francs suisses, qui représente le résultat net d'un placement privé de 400 millions FS sur le marché suisse des capitaux et le repaiement d'un emprunt bancaire à échéance fixe de 700 millions FS.

Release

Communiqué

From the Office of

Honourable Allan J. MacEachen
Deputy Prime Minister
and Minister of Finance

House of Commons, Ottawa

Du Cabinet de

l'honorable Allan J. MacEachen
vice-premier ministre
et ministre des Finances

Chambre des communes, Ottawa

82-42

For immediate release

Ottawa, April 16, 1982

Finance Minister Allan J. MacEachen released today the regular monthly statement of the government's financial operations for February 1982 and the first eleven months of the 1981-82 fiscal year.

For February, budgetary revenues were $3,584 million, expenditures were $5,060 million and there was a deficit of $1,476 million. For February 1981, revenues were $3,172 million, expenditures were $4,742 million and there was a deficit of $1,570 million.

For the first eleven months of the 1981-82 fiscal year, budgetary revenues were $48,113 million, expenditures were $58,333 million and there was a deficit of $10,220 million. For the same period last year, revenues were $39,599 million, expenditures were $51,648 million and there was a deficit of $12,049 million.

Publication immédiate

Ottawa, le 16 avril 1982

Le Ministre des Finances, Allan J. MacEachen a publié aujourd'hui l'état mensuel régulier des opérations financières du gouvernement pour le mois de février 1982 et les onze premiers mois de l'année financière 1981-82.

Les chiffres budgétaires de février s'établissent ainsi: recettes $3,584 millions, dépenses $5,060 millions, d'où un déficit de $1,476 millions. Les chiffres de février 1981 s'établissaient ainsi: recettes $3,172 millions, dépenses $,4,742 millions, d'où un déficit de $1,570 millions.

Les onze premiers mois de l'année financière 1981-82 ont produit des recettes budgétaires de $48,113 millions, dépenses de $58,333 millions, d'où un déficit de $10,220 millions. La période correspondante de l'an dernier avait donné des recettes de $39,599 millions, des dépenses de $51,648 millions et un déficit de $12,049 millions.

Canada

Release

From the Office of

Honourable Allan J. MacEachen
Deputy Prime Minister
and Minister of Finance

House of Commons, Ottawa

Communiqué

Du Cabinet de

l'honorable Allan J. MacEachen
vice-premier ministre
et ministre des Finances

Chambre des communes, Ottawa

82-51

Tuesday, May 4, 1982

Official International Reserves

Deputy Prime Minister and Minister of Finance Allan J. MacEachen announced today the level and composition of Canada's official international reserves on April 30, 1982, as follows:

(Millions of U.S. Dollars)

U.S. Dollars		2,174.6
Other Foreign Currencies		18.6
Gold		804.7
Special Drawing Rights		141.9
Reserve Position in IMF		381.4
Total:	April 30, 1982	3,521.2
	March 31, 1982	2,968.8
	Change	+552.5

The change in reserves in April included an increase of U.S. $20.2 million in SDR-denominated assets reflecting appreciation of the U.S. dollar value of the SDR.

There were no gold sales. On April 30, gold holdings stood at 20.4 million ounces.

82-51

le mardi 4 mai 1982

Réserves Officielles de liquidités internationales

Le Vice-premier ministre et ministre des Finances, Allan J. MacEachen a publié ce matin l'état des réserves canadiennes officielles de liquidités internationales arrêté le 30 avril 1982:

(En millions de dollars E.-U.)

Dollars E.-U.		2,174.6
Autres devises étrangères		18.6
Or		804.7
Droits de tirage spéciaux		141.9
Position active au FMI		381.4
Total:	30 avril 1982	3,521.2
	31 mars 1982	2,968.8
	Variation	+552.5

La variation des réserves en avril comportait une hausse de $20.2 millions E.-U. en raison de l'appréciation de la valeur en dollars américains des avoirs libellés en droits de tirage spéciaux.

Il n'y a eu aucune vente d'or au cours du mois d'avril. Au 30 avril, les avoirs d'or s'élevaient à 20.4 millions d'onces.

..../2

budgetary transactions will be offset in large part in non-budgetary transactions. The preliminary financial statement for 1981-82, which will incorporate the effect of the supplementary period transactions, is scheduled for release at the end of July.

For March 1982, budgetary revenues were $6,215 million, expenditures were $6,909 million and there was a deficit of $694 million. For March 1981, revenues were $6,250 million, expenditures were $5,414 million and there was a surplus of $836 million.

To date this fiscal year, budgetary revenues were $54,328 million, expenditures were $65,242 million and there was a deficit of $10,914 million. For the same period last year, revenues were $45,849 million, expenditures were $57,062 million and there was a deficit of $11,213 million.

pour la fin de juillet la publication de l'état financier préliminaire de 1981-82 qui tiendra compte des effets des transactions de la période supplémentaire.

En mars 1982, les recettes budgétaires s'établissaient à $6,215 millions et les dépenses à $6,909 millions, d'où un déficit de $694 millions. En mars 1981, les recettes s'établissaient à $6,250 millions et les dépenses à $5,414 millions, d'où un excédent de $836 millions.

A date, l'année financière en cours à produit des recettes budgétaires de $54,328 millions et des dépenses de $65,242 millions, d'où un déficit de $10,914 million La période correspondante de l'an dernier avait donnée des recettes de $45,849 million et des dépenses de $57,062 millions, d'où un déficit de $11,213 millions.

Release

From the Office of

Honourable Allan J. MacEachen
Deputy Prime Minister
and Minister of Finance

House of Commons, Ottawa

32-64

Vednesday, June 2, 1982

Official International Reserves

Deputy Prime Minister and Minister of Finance Allan J. MacEachen announced today the level and composition of Canada's official international reserves on May 31, 1982, as follows:

(Millions of U.S. Dollars)

U.S. Dollars		1,603.3
Other Foreign Currencies		14.5
Gold		800.8
Special Drawing Rights		72.2
Reserve Position in IMF		379.5
Total:	May 31, 1982	2,870.3
	April 30, 1982	3,521.2
	Change	-651.0

The change in reserves in May included a decrease of $6.1 million in SDR-denominated assets reflecting depreciation of the U.S. dollar value of the SDR.

There were no gold sales. On May 31, gold holdings stood at 20.4 million ounces.

Communiqué

Du Cabinet de

l'honorable Allan J. MacEachen
vice-premier ministre
et ministre des Finances

Chambre des communes, Ottawa

82-64

le mercredi 2 juin 1982

Réserves officielles de liquidités internationales

Le Vice-premier ministre et ministre des Finances, Allan J. MacEachen a publié ce matin l'état des réserves canadiennes officielles de liquidités internationales arrêté le 31 mai 1982:

(En millions de dollars E.-U.)

Dollars E.-U.		1,603.3
Autres devises étrangères		14.5
Or		800.8
Droits de tirage spéciaux		72.2
Position active au FMI		379.5
Total:	31 mai 1982	2,870.3
	30 avril 1982	3,521.2
	Variation	-651.0

La variation des réserves en mai comportait une baisse de $6.1 millions en raison de la dépréciation de la valeur en dollars américains des avoirs libellés en droits de tirage spéciaux.

Il n'y a eu aucune vente d'or au cours du mois de mai. Au 31 mai, les avoirs d'or s'élevaient à 20.4 millions d'onces.

.../2

Canada

The change also included a drawing of U.S. $300 million under the standby credit facility with the Canadian chartered banks. On May 31, drawings outstanding under this facility totalled U.S. $300 million.

Cette variation comprenait aussi une augmentation de $300 millions E.-U. provenant d'un tirage effectué sur la ligne de crédit renouvelable avec les banques à charte canadiennes. Au 31 mai, l'encours des tirages sur cette ligne de crédit s'élevait à $300 millions E.-U.

There were no net drawings under the standby facility with the U.S. and other foreign banks. On May 31, drawings outstanding under this facility totalled U.S. $500 million.

Aucun tirage net n'a été effectué sur la ligne de crédit avec les banques américaines et autres banques étrangères. Au 31 mai, l'encours des tirages sur cette ligne de crédit s'élevait à $500 millions E.-U.

Release

Communiqué

From the Office of

Honourable Allan J. MacEachen
Deputy Prime Minister
and Minister of Finance

House of Commons, Ottawa

Du Cabinet de

l'honorable Allan J. MacEachen
vice-premier ministre
et ministre des Finances

Chambre des communes, Ottawa

Immediate Release

Ottawa, June 28, 1982
82-71

The Honourable Allan J. MacEachen, Deputy Prime Minister and Minister of Finance, today announced revised rules relating to the taxation of life insurance.

He said that life insurance policies purchased before June 29, 1982 are not being affected, and will be treated under the rules which existed prior to November 12, 1981.

New rules with respect to policies issued after June 28, 1982 reflect the Minister's earlier statement that he was prepared to consider exempting certain policies from tax on accrued income if an adequate definition of an exempt policy could be developed. After extensive consultations with representatives of the life insurance industry, a definition has been developed which exempts life insurance policies, if they provide significant amounts of insurance protection relative to the income build-up and tax deferral they offer.

The Minister said that the new proposals address concerns expressed about the November 12 budget measures while maintaining the basic purpose of the original proposals which was to limit the opportunity for extensive tax deferral through various types of financial instruments and to put life insurance and annuities on a more equal tax footing with competing financial instruments.

Mr. MacEachen expressed appreciation for the valuable contribution of life insurance industry representatives during the consultations.

Exempt Life Insurance Policies

Prior to the November 12 budget, the build-up of income within a life insurance policy was not subject to tax unless the policyholder surrendered the policy and the tax was deferred until surrender. The November 12 budget proposed that the investment income accrued on all financial instruments, including life insurance issued after November 12, 1981, be taxable every three years.

The new proposal will exempt life insurance policies issued after June 28, 1982 provided the amount accumulated by the insurer for the policy, relative to the insurance protection provided, is below a specified limit. This limit is essentially the amount that would be accumulated in a standard policy that provides the same death benefit and is paid for by premiums over 20 years. (See attached technical details.) In addition there will be no limitation on the amount of insurance coverage under policies qualifying for exemption. Most regular whole-life policies purchased for protection and paid for by premiums over 20 years or more will be exempt under the new rule.

However, policies which have a large amount accumulated relative to the insurance protection, and would thus confer an extensive tax deferral, will not be exempt. Such policies include those paid for by a single premium or those guaranteeing payment of benefits (endowment policies) before the insured person reaches age 85. On such policies, the policyholders will be required to report and pay tax on the accrued income every three years as proposed in the budget. However, taxpayers may make a one-time election to report accrued income annually so that they may take full advantage of the annual $1,000 deduction for investment

income now provided in the Income Tax Act. Life insurance companies will provide information slips to policyholders showing the amount of income to be reported for tax purposes.

If the amount accumulated by the insurer for an exempt policy exceeds the limit, the policy will cease to be exempt, the accrued income to that point will be taxed and any subsequent income build-up will be taxed every three years thereafter.

Policies owned by corporations will be eligible for the exemption, and corporations will continue to receive life insurance death benefits tax-free. However, for policies purchased after June 28, 1982, these amounts may no longer be paid out tax-free to shareholders through the use of the capital dividend account. This will permit corporations to obtain insurance protection against the death of a key employee, but will restrict the undue tax advantage now available through corporate-owned life insurance. Also shareholders of incorporated businesses, as individuals, may continue to purchase exempt life insurance policies on each others' lives to ensure the continuation of the business on the death of one of the shareholders.

Tax on Surrender of Exempt Life Insurance Policies

As in the rules before the November Budget, exempt life insurance policies will continue to be taxable if the policy is surrendered before death. The amount that will be taxed on surrender is the accumulated income, measured as the cash surrender value received less the cost of the policy for tax purposes. Previously, the full amount of premiums paid was included in the cost of the policy for tax purposes. This will be revised so that the mortality cost, determined by a simplified standard formula, will be excluded from the cost of the policy for tax purposes for policy years commencing on or after June 1, 1985.

Dividends, Loans and Partial Surrenders of Exempt Life Insurance Policies

As under pre-budget rules, dividends declared on participating life insurance policies will continue to reduce the cost of the policy for tax purposes.

In addition, where a policyholder receives cash from an exempt policy by taking out a loan against the cash value, or by surrendering part of the policy, he will be taxed on the portion of the accumulated income in the policy attributable to the loan or partial surrender. Thus, if a policyholder took a cash loan for one-half of the amount accumulated in an exempt policy, or surrendered half the policy, one-half of the income build-up would be taxable in that year.

Annuities

The November 12 budget proposed to tax the accrued income on deferred annuities every three years, in the same way as other financial instruments. The Minister today released further details concerning the application of this proposal to annuities.

The option of reporting accrued income annually, instead of every three years, will be extended to annuities and all other financial instruments subject to the three-year accrual rules. This will benefit taxpayers who wish to make maximum use of the annual $1,000 investment income deduction.

Interest on money borrowed to pay premiums on annuities not registered as registered retirement savings plans (RRSPs) or other registered plans, will be deductible under the general rules governing interest paid on loans to earn property income. In addition, any loss suffered by an annuity owner because the

cash received on surrender is less than the cost of the annuity for tax purposes will now be deductible to the extent of the amount of the accrued income previously taxed.

Owners of annuities purchased before the budget which are "locked in" will benefit from a delay in the start of the accrual provisions until the lock-in period expires. Income accrued after November 12, 1981, arising on premiums paid before that date on these annuities, will not have to be reported until the lock-in period expires.

Taxation of Life Insurance Companies

The November 12 budget made a number of modifications to the taxation of life insurance companies to bring it more in line with general tax principles. Certain changes to these rules are now proposed.

That budget proposed to end the additional reserve deduction allowed to life insurance companies with respect to qualified annuities -- generally annuities payable under deferred income plans, such as RRSPs and deferred profit sharing plans. This proposal now will apply only to such annuities issued after the end of 1981 and the reserve deduction will be continued for pre-1982 annuities while they remain in force.

The November budget also proposed to tax interest income of companies derived from loans to policyholders on an accrual basis each year. Technical changes will be made to eliminate double taxation for companies who were on the cash basis of accounting in 1969 when life insurance companies first became taxable. In addition, the tax treatment of income from the foreign non-life insurance business of Canadian life insurance companies will be unchanged from the rules applying before November 12, 1981.

Technical Details of Basic Test for Exempt Life Insurance Policies

For a policy to be exempt in a year, its maximum tax actuarial reserve (MTAR), including the MTAR for any paid-up additions and term riders or additions, must be less than a bench-mark value.

For the twentieth and subsequent year's of a policy's duration the bench-mark value is the MTAR for a single-premium age-85 endowment policy for an amount equal to the death benefit for the year, including paid-up additions and term riders or additions, under the actual policy being tested.

For the first 19 years, the bench-mark value is based on a fraction of the bench-mark value for the twentieth year. Thus, in the first year, the bench-mark value is one-twentieth of the bench-mark value for the twentieth year, two-twentieths in the second year, etc.

The bench-mark value for a policy will generally be based on the mortality table and interest rate used in determining its MTAR. However, there will be a minimum interest rate of 3 per cent for policies issued before the end of 1984, and 4 per cent for policies issued after 1984.

Further technical details will be made available later.

Détails techniques relatifs au test des polices d'assurance-vie exemptées

Pour qu'une police soit exemptée dans l'année, sa réserve actuarielle d'impôt maximum (RAIM), y compris la RAIM visant toute addition versée et tout avenant ou ajout pour une police temporaire, doit être inférieure à une valeur repère.

A l'égard de la vingtième année et des années suivantes de la durée d'une police, la valeur repère sera la RAIM d'une police à dotation à 85 ans à prime unique d'un montant égal à la prestation consécutive au décès pour l'année (y compris tout avenant ou ajout) de la police faisant l'objet du test.

A l'égard des dix-neuf premières années, la valeur repère est fondée sur une fraction de celle de la vingtième année. Par conséquent, la valeur repère est, pour la première année, égale à un vingtième de la valeur repère de la vingtième année, deux vingtièmes pour la seconde, etc.

La valeur repère d'une police sera généralement fondée sur le tableau de mortalité et le taux d'intérêt utilisés pour déterminer la RAIM. Toutefois, pour les polices émises avant la fin de 1984, un taux minimum d'intérêt de 3 pour cent sera prévu et, pour celles émises après 1984, le taux d'intérêt minimum prévu sera de 4 pour cent.

Des détails techniques complémentaires seront rendus publics plus tard.

Des modifications techniques seront apportées pour éliminer la double imposition des compagnies qui avaient adopté la comptabilité de caisse en 1969, au moment où les compagnies d'assurance-vie furent imposées pour la première fois. De plus, le traitement fiscal du revenu tiré d'une entreprise d'assurance étrangère (autre qu'une entreprise d'assurance-vie) par des compagnies canadiennes d'assurance-vie ne sera pas différent de celui que prévoyaient les règles en vigueur avant le 12 novembre 1981.

Les intérêts sur les sommes empruntées pour acquitter les primes de rentes non enregistrées à titre de régimes enregistrés d'épargne-retraite ou d'autres régimes enregistrés seront déductibles en vertu des règles générales concernant l'intérêt versé sur les prêts servant à gagner un revenu de biens. En outre, toute perte encourue par le propriétaire d'une rente, du fait que le montant reçu au rachat est inférieur au coût de la rente aux fins d'impôt, sera désormais déductible dans la mesure du montant de revenu accumulé imposé antérieurement.

Les propriétaires de rentes qui ont été acquises avant le budget et qui sont "bloquées" pourront bénéficier d'un report du début de la procédure d'accumulation jusqu'à l'expiration de la période de "blocage". Le revenu accumulé après le 12 novembre 1981, provenant des primes versées avant cette date sur ces rentes, n'aura à être déclaré qu'à l'expiration de la période de "blocage".

Imposition des compagnies d'assurance-vie

Le budget du 12 novembre prévoyait apporter certaines modifications à l'imposition des companies d'assurance-vie afin de la rendre plus conforme aux principes fiscaux généraux. Il est maintenant proposé d'apporter certains changements à ces règles.

Ce budget proposait de mettre fin à la déduction pour réserve supplémentaire des compagnies d'assurance à l'égard des rentes admissibles -- généralement des rentes payables sous forme de régimes de revenu différé, tels les régimes enregistrés d'épargne-retraite et les régimes de participation différée aux bénéfices. Cette disposition ne s'appliquera qu'aux rentes émises après 1981 et la déduction pour réserve sera maintenue à l'égard des rentes émises avant 1982 aussi longtemps qu'elles resteront en vigueur.

Le budget du 12 novembre proposait également d'imposer chaque année, selon la comptabilité d'exercice, le revenu d'intérêts des compagnies découlant de prêts consentis aux détenteurs de polices.

était inclus dans le coût de la police aux fins d'impôt. Ceci sera révisé de façon à ce que le coût de mortalité, défini selon une formule simplifiée, soit exclu du coût de la police aux fins d'impôt pour les années de la police commençant à compter du 1^{er} juin 1985.

Dividendes, prêts et rachats partiels de polices exemptées

Comme c'était le cas avant le budget, les dividendes déclarés sur des polices d'assurance-vie avec participation continueront de réduire le coût des polices aux fins d'impôt.

De plus, lorsqu'un détenteur de police reçoit un paiement en espèces d'une police exonérée, sous forme de prêt sur la valeur de rachat ou de rachat partiel de la police, il sera imposé sur la fraction du revenu accumulé de la police qui est attribuable au prêt ou au rachat partiel. Ainsi, si un détenteur de police effectuait un emprunt en espèces égal à la moitié du montant accumulé dans une police exemptée, ou s'il rachetait la moitié de la police, la moitié du revenu accumulé serait imposable dans l'année visée.

Rentes

Le budget du 12 novembre proposait d'imposer le revenu accumulé des rentes différées tous les trois ans, de la même manière que les autres titres. Le ministre a rendu publics aujourd'hui des détails complémentaires relativement à l'application de cette proposition aux rentes.

La possibilité de déclarer le revenu accumulé annuellement, au lieu de tous les trois ans, sera étendue aux rentes ainsi qu'à tous les titres assujettis à la règle des trois ans. Cela bénéficiera aux contribuables désirant tirer pleinement avantage de la déduction de $1,000 pour revenu de placements.

trois ans et acquitter l'impôt exigible. Cependant, les contribuables pourront opter, et ce une seule fois, de déclarer le revenu accumulé chaque année afin de tirer pleinement avantage de la déduction de $1,000 pour revenu de placements prévue actuellement dans la Loi de l'impôt sur le revenu. Les compagnies d'assurance-vie fourniront aux détenteurs des feuillets de renseignements indiquant le revenu à déclarer aux fins d'impôt.

Si le montant accumulé par l'assureur, pour une police exemptée, dépasse la limite, la police cessera d'être exemptée, le revenu accumulé jusque-là sera imposé et tout revenu s'accumulant par la suite sera imposé tous les trois ans.

Les polices détenues par les corporations seront admissibles à l'exemption et les corporations continueront à recevoir les prestations consécutives au décès d'assurance-vie exonérées d'impôt. Toutefois, pour les polices acquises après le 28 juin 1982, ces montants ne pourront plus être versés exempts d'impôt aux actionnaires par l'entremise du compte de dividende en capital. Ceci permettra aux corporations d'obtenir de la protection contre la perte d'un employé-clé lors de son décès, tout en évitant que des avantages fiscaux indus soient accordés par le biais de l'assurance-vie qu'elles détiennent. Les actionnaires d'entreprises constituées pourront, en tant que particuliers, continuer d'acheter des polices d'assurance-vie exemptées sur la vie de chacun des autres actionnaires pour assurer le maintien de l'entreprise au décès de l'un d'eux.

Impôt au rachat de polices d'assurance-vie exemptées

Ainsi que le prévoyaient les règles antérieures au budget de novembre, les polices d'assurance-vie exemptées continueront d'être imposées si elles sont rachetées avant le décès du détenteur. Le montant imposable au rachat sera le revenu accumulé, mesuré comme étant la valeur de rachat reçue moins le coût de la police aux fins d'impôt. Antérieurement, le plein montant des primes

M. MacEachen a exprimé sa gratitude aux représentants du secteur de l'assurance-vie pour leur précieuse contribution lors des consultations.

Polices d'assurance-vie exemptées

Avant le budget du 12 novembre, l'accumulation du revenu dans les polices d'assurance-vie n'était pas imposable sauf lorsque le détenteur rachetait sa police, ce qui avait pour effet de reporter l'impôt jusqu'au moment du rachat. Le budget du 12 novembre proposait que le revenu de placement accumulé sur tous les titres, dont l'assurance-vie émise après le 12 novembre 1981, soit imposable tous les trois ans.

La nouvelle proposition exemptera les polices d'assurance-vie à la condition que le montant accumulé par l'assureur pour la police, par rapport à la protection assurée, soit inférieur à une limite donnée. Cette limite représente essentiellement le montant qui serait accumulé dans une police type qui prévoit la même prestation consécutive au décès et qui est payée à l'aide de primes échelonnées sur une période de 20 ans. (Voir les détails techniques en annexe). De plus, aucune limite ne sera imposée quant au montant de protection offert par les polices admissibles à l'exemption. La plupart des polices vie-entière acquises dans le but d'assurer une protection, et payées à l'aide de primes s'échelonnant sur une période de 20 ans ou plus, seraient exemptées en vertu de la nouvelle règle.

Toutefois, les polices comportant un montant accumulé élevé par rapport à la protection qu'elles offrent, et par conséquent permettant un report d'impôt important, ne seront pas exemptées. Ces dernières comprennent les polices à prime unique et celles qui garantissent le paiement des prestations (polices à dotation) avant que l'assuré n'ait atteint l'âge de 85 ans. Pour ce qui est de ces polices, les détenteurs devront, conformément à la proposition budgétaire, déclarer le revenu accumulé tous les

Release / Communiqué

From the Office of / Du Cabinet de

Honourable Allan J. MacEachen
Deputy Prime Minister
and Minister of Finance

l'honorable Allan J. MacEachen
vice-premier ministre
et ministre des Finances

House of Commons, Ottawa / Chambre des communes, Ottawa

Publication immédiate

Ottawa, le 28 juin 1982
82-71

L'honorable Allan J. MacEachen, vice-premier ministre et ministre des Finances, a annoncé aujourd'hui des règles révisées concernant l'imposition de l'assurance-vie.

Il a indiqué que les polices d'assurance-vie achetées avant le 29 juin 1982 ne sont pas touchées et sont soumises aux règles en vigueur avant le 12 novembre 1981.

De nouvelles règles, relativement aux polices émises après le 28 juin 1982, reflètent la déclaration antérieure du ministre, selon laquelle il était prêt à envisager une exemption pour certaines polices à la condition que l'on définisse de façon adéquate une police exonérée. Suite à de nombreuses consultations auprès des représentants du secteur de l'assurance-vie, on en est arrivé à une définition qui a pour effet d'exempter les polices d'assurance-vie, lorsque celles-ci prévoient des montants importants de protection par rapport à l'accumulation du revenu et au report d'impôt qu'elles offrent.

Le ministre a déclaré que les nouvelles propositions répondent aux inquiétudes exprimées à l'égard des mesures budgétaires du 12 novembre dernier, tout en retenant l'objectif fondamental des propositions d'origine, soit de limiter la possibilité d'un report d'impôt important au moyen de diverses catégories de titres et de placer, aux fins de l'impôt sur le revenu, l'assurance-vie et les rentes sur un même pied que des titres compétitifs.

Canada

Release

From the Office of

Honourable Allan J. MacEachen
Deputy Prime Minister
and Minister of Finance

House of Commons, Ottawa

Communiqué

Du Cabinet de

l'honorable Allan J. MacEachen
vice-premier ministre
et ministre des Finances

Chambre des communes, Ottawa

Immediate release

Ottawa, June 28, 1982
82-72

The Honourable Allan J. MacEachen, Deputy Prime Minister and Minister of Finance, today tabled in the House of Commons comprehensive Notices of Ways and Means Motions relating to the budget of November 12, 1981. The motions set out the draft income tax legislation to implement proposals of that budget.

The draft legislation reflects the modifications to the budget measures announced by Mr. MacEachen on December 18, 1981. It also contains further alterations reflecting many of the constructive suggestions received over the past several months.

The legislation is being issued in draft form to afford those taxpayers whose interests are affected and their professional advisers an opportunity to review the proposed amendments and suggest modifications to ensure that the changes do not have unintended or inappropriate effects. Mr. MacEachen said that in order to provide ample time for review he would not be proceeding with final legislation in Parliament until after the summer recess.

The practice of tabling draft legislation in the form of comprehensive Notices of Ways and Means Motions was proposed in the document entitled "The Budget Process: A Paper on Budget Secrecy and Proposals for Broader Consultation" issued in April. In that document the Minister said this procedure, which has been followed in recent years, provides an opportunity for significant input by the public and the legal and accounting professions in the development of tax legislation.

The Minister said that a committee of tax professionals has been appointed to review proposals in Resolutions 23 and 24 of the November budget involving the deduction of interest expense. Their effective date is being postponed pending the review and would not in any event apply before 1983.

Canada

More significant modifications to earlier proposals include a reduction of the automobile standby charge from 2 1/2 per cent per month to 2 per cent and a postponement of the 12 1/2-per-cent corporate distributions tax to January 1, 1983. The automobile standby charge is used in calculating the benefit to an employee from the personal use of a company car. The corporate distributions tax is intended to adjust for the difference between the rate of tax paid by certain small business corporations and the amount of the dividend tax credit to which shareholders are entitled when earnings are distributed.

Draft legislation relating to charities and to the tax treatment of life insurance policies is delayed as a result of the extensive discussions that have taken place with representatives of both interests. Details of changes relating to life insurance taxation are outlined in a separate press release. The Minister said proposed amendments in these areas would be made public as soon as they are available.

There are modifications in the draft legislation to the proposals relating to forward averaging which will improve its effectiveness. Forward averaging is a method of averaging tax rates so that someone with an unusually high, non-recurring income is not taxed at an excessive rate. The changes in this area will extend the application of forward averaging to all income earned by artists and athletes from their activities as such.

There are also modifications to proposals relating to the deduction of certain reserves on instalment sales of property where the proceeds are not received until a future year. The business reserves proposed for sales of real estate will be extended to sales of all inventory and the computation of the reserve will be based on the portion of the total proceeds that remain unpaid over a three-year period.

With respect to the changes proposed in Budget Resolution 14 relating to low-interest or interest-free loans by Canadian corporations to their foreign subsidiaries, and amendments affecting corporate reorganizations, Mr. MacEachen intends to further consider these particular changes. The treatment of loans to non-resident corporations is part of a broader study of the taxation of foreign source income that is currently under way. In the area of corporate reorganizations, the Minister intends to refer the amendments in this very complex area of the law to a group of outside consultants for review. Changes in these areas will not be proceeded with before the studies have been concluded and a discussion document has been made public.

The Minister said that the proposed restriction on deductibility of interest expense would not apply to interest under commitments prior to November 12, 1981 relating to employee share purchase loans. The decision to "grandfather" such loans recognizes that in many circumstances employees are locked into relatively

long-term arrangements and are unable to reorganize their affairs. The application of the interest restriction to corporations under Budget Resolution 24 was intended as an anti-avoidance measure and the Minister confirmed that, as such, it would apply only to those private corporations that carry on either a personal service or a professional business.

The draft legislation does, however, contain the proposals in Budget Resolution 20 relating to the non-deductibility of interest on loans to finance contributions to registered retirement savings plans (RRSPs) and certain other plans.

The Minister also announced a three-year extension of the non-resident withholding tax exemption for interest paid on government and long-term corporate borrowings. The existing exemption is scheduled to terminate for bonds and other debt issued after 1982. The Minister indicated that the amendments necessary to provide for the extension of the exemption for interest on debt obligations issued before 1986, while not included in the draft legislation, would be reflected in the implementing legislation to be introduced in the fall.

In addition, Mr. MacEachen released the text of draft regulations (attached) that describe what is to be included in the expression "prescribed share" for the purpose of paragraph 112(2.3)(g) and paragraph (f) of the definition "term preferred share" in the draft legislation. The draft regulations are essential for an understanding of these two provisions.

Mr. MacEachen said that taxpayers with particular technical concerns arising out of the draft legislation should write to the Tax Policy and Legislation Branch, Department of Finance, Ottawa, K1A 0G5.

<u>Draft Income Tax Regulation</u>
<u>SCHEDULE</u>

1. Section 6201 of the <u>Income Tax Regulations</u> is revoked and the following substituted therefor:

"6201(1) Subject to subsection (2), for the purposes of paragraph 112(2.3)(g) of the Act and paragraph (f) of the definition "term preferred share" in subsection 248(1) of the Act, a share is a prescribed share with respect to a corporation (in this subsection referred to as the "recipient") that receives a dividend at any time in respect of the share if it was acquired after June 28, 1982 and is of a class or of a series of a class of the capital stock of a corporation that is listed on a stock exchange referred to in section 3200 unless in the aggregate dividends are received at that time from the corporation in respect of more than 10 per cent of its issued and outstanding shares of that class or of that series, as the case may be, by

(a) the recipient, or
(b) the recipient and persons with whom the recipient does not deal at arm's length.

(2) For the purposes of paragraph 112(2.3)(g) of the Act and paragraph (f) of the definition "term preferred share" in subsection 248(1) of the Act, a share is hereby prescribed that is a share last acquired before June 29, 1982 and is of a class or of a series of a class of the capital stock of a corporation that is listed on a stock exchange referred to in section 3200 unless in the aggregate more than 10 per cent of the issued and outstanding shares of that series or of that class, as the case may be, are owned by

(a) the owner thereof, or
(b) the owner and persons related to him."

2. Section 1 is effective on and after November 13, 1981.

Projet de règlement de l'impôt sur le revenu

ANNEXE

1. L'article 6201 du Règlement de l'impôt sur le revenu est abrogé et remplacé par ce qui suit:

"6201.(1) Sous réserve du paragraphe (2), aux fins de l'alinéa 112(2.3)g) de la Loi et de l'alinéa f) de la définition d'"action privilégiée à terme" au paragraphe 248(1) de la Loi, une action est une action prescrite à l'égard d'une corporation (appelée au présent paragraphe le "bénéficiaire") qui reçoit un dividende à une date quelconque à l'égard de l'action, si l'action a été acquise après le 28 juin 1982 et qu'elle fait partie d'une catégorie ou d'une série d'une catégorie du capital-actions d'une corporation inscrite à une bourse visée à l'article 3200, à moins que, dans l'ensemble, des dividendes ne soient reçus à cette date de la corporation à l'égard de plus de 10 pour cent de ses actions émises et en circulation de cette catégorie ou de cette série, selon le cas, par

a) le bénéficiaire, ou
b) le bénéficiaire et des personnes avec lesquelles il a un lien de dépendance.

(2) Aux fins de l'alinéa 112.(2.3)g) de la Loi et de l'alinéa f) de la définition d'"action privilégiée à terme" au paragraphe 248(1) de la Loi, est, par les présentes, prescrite une action acquise pour la dernière fois avant le 29 juin 1982 et faisant partie d'une catégorie ou d'une série d'une catégorie du capital-actions d'une corporation inscrite à une bourse visée à l'article 3200, à moins que, dans l'ensemble, plus de 10 pour cent des actions émises et en circulation de cette émission ou de cette catégorie, selon le cas, n'appartiennent

a) au propriétaire de l'action, ou
b) au propriétaire de l'action et à des personnes qui lui sont liées."

2. L'article 1 s'applique à compter du 13 novembre 1981.

Le ministre a déclaré que la limitation proposée de la déductibilité des frais d'intérêt ne s'appliquerait pas aux intérêts découlant d'engagements antérieurs au 12 novembre 1981, sur des prêts consentis pour les achats d'actions des employés. La décision de "protéger" ces prêts tient compte du fait que, dans bien des cas, les employés sont liés par des ententes relativement à long terme et ne peuvent réorganiser leurs affaires. L'application de cette restriction aux sociétés, en vertu de la résolution 24, avait pour objet de prévenir les échappatoires; aussi le ministre a-t-il confirmé que, à ce titre, elle ne s'appliquerait qu'aux compagnies privées qui exploitent soit une entreprise de service personnel ou une entreprise à vocation professionnelle.

L'ébauche de législation reprend toutefois les propositions de la résolution budgétaire 20 concernant la non déductibilité de l'intérêt sur les prêts servant à financer les contributions à des régimes enregistrés d'épargne-retraite (REER) et à certains autres régimes.

Le ministre a également annoncé la prorogation pour trois ans de l'exemption de la retenue fiscale sur les non-résidents dans le cas des intérêts versés sur les emprunts de l'Etat et les emprunts à long terme des sociétés. L'exemption actuelle doit prendre fin pour les obligations et les autres titres de créance émis après 1982. Le ministre a indiqué que les modifications nécessaires pour prolonger l'exemption à l'égard des intérêts payés sur les titres de créance émis avant 1986, sans être incluses dans l'ébauche de législation, seraient reflétées dans les mesures d'application à présenter à l'automne.

De plus, M. MacEachen a publié un projet de règlement (annexé) décrivant ce qui doit être inclus dans l'expression "action prescrite" aux fins de l'alinéa 112(2.3)g) et à l'alinéa f) de la définition d'une "action privilégiée à terme" dans l'ébauche de législation. L'ébauche de règlement est indispensable à la compréhension de ces deux dispositions.

M. MacEachen a indiqué que les contribuables qui ont des préoccupations techniques particulières au sujet de l'ébauche de législation devraient s'adresser par écrit à la direction de la Politique et de la Législation de l'impôt, ministère des Finances, Ottawa, K1A 0G5.

Parmi les modifications les plus importantes apportées aux propositions antérieures figurent une réduction de l'avantage imposable pour utilisation d'une automobile, ramenée de 2½ à 2 pour cent par mois, ainsi qu'un report au 1er janvier 1983 de l'impôt de 12½ pour cent sur les distributions de dividendes. L'avantage imposable sert à calculer l'avantage dont bénéficie l'employé qui dispose d'une voiture de son employeur pour son usage personnel. L'impôt sur les distributions de dividendes vise à corriger la différence existant entre le taux d'impôt versé par certaines petites sociétés et le crédit d'impôt pour dividendes auquel ont droit les actionnaires lorsque les bénéfices sont distribués.

Une ébauche de législation relative aux organismes de charité et aux polices d'assurance-vie est remise à plus tard par suite des entretiens intensifs qui ont eu lieu avec les représentants des deux groupes intéressés. Le détail des modifications apportées à l'imposition de l'assurance-vie est exposé dans un communiqué de presse distinct. Le ministre a déclaré que les modifications proposées dans ces domaines seraient rendues publiques dès qu'elles seraient disponibles.

L'ébauche de législation modifie les propositions relatives à l'étalement du revenu. L'étalement permet de faire une moyenne des taux d'imposition de façon que le contribuable qui reçoit un revenu élevé à titre exceptionnel ne soit pas imposé à un taux excessif. Les modifications apportées dans ce domaine étendent à la totalité du revenu des artistes et des athlètes provenant de leurs activités respectives l'application des dispositions d'étalement.

Des modifications sont également apportées aux propositions concernant la déduction de certaines réserves sur les ventes de biens à tempérament, dont le produit n'est perçu que plus tard. Les réserves proposées dans le cas de ventes d'immeubles seront étendues à la vente de tout l'inventaire, et le calcul de la réserve sera fondé sur la fraction du produit de vente restant impayée durant les trois années suivantes.

Au sujet des changements proposés dans la résolution budgétaire 14 traitant des prêts à taux d'intérêt faible ou nul consentis par des sociétés canadiennes à leurs filiales étrangères, ainsi que les modifications touchant les réorganisations de sociétés, M. MacEachen entend examiner plus à fond ces changements particuliers. Le régime des prêts aux sociétés non résidentes s'insère dans le cadre d'une étude plus large actuellement entreprise sur l'imposition des revenus de source étrangère. Dans le domaine des réorganisations de sociétés, le ministre se propose de faire examiner les modifications prévues dans ce domaine très complexe de la loi par un groupe de conseillers extérieurs. On ne procédera à aucun changement dans ces domaines avant que l'étude n'ait été menée à bien et un document d'étude rendu public.

Release | Communiqué

From the Office of

Honourable Allan J. MacEachen
Deputy Prime Minister
and Minister of Finance

House of Commons, Ottawa

Du Cabinet de

l'honorable Allan J. MacEachen
vice-premier ministre
et ministre des Finances

Chambre des communes, Ottawa

Publication immédiate

Ottawa, le 28 juin 1982
82-72

Le Vice-premier ministre et ministre des Finances, l'honorable Allan J. MacEachen, a déposé aujourd'hui à la Chambre des communes des avis complets de motions des voies et moyens portant sur le budget du 12 novembre 1981. Les motions exposent l'ébauche de législation fiscale visant à mettre en oeuvre les propositions de ce budget.

L'ébauche de législation reflète les modifications fiscales annoncées le 18 décembre 1981 par M. MacEachen. Elle contient aussi d'autres changements qui reflètent nombre des propositions constructives reçues au cours des derniers mois.

La législation est publiée sous forme d'ébauche pour permettre aux contribuables dont les intérêts sont touchés et à leurs conseillers professionnels d'étudier les modifications proposées et de suggérer des changements de façon que les propositions n'aient pas d'effet fortuit ou inapproprié. M. MacEachen a déclaré que, pour donner un temps suffisant à cet examen, il ne proposerait pas de mesures législatives définitives au Parlement avant la reprise des travaux à l'automne.

Le dépôt d'ébauches législatives sous forme d'avis complets de motions des voies et moyens a été proposé dans le document d'avril intitulé <u>Le processus budgétaire: Document sur le secret budgétaire et propositions de consultation plus ouverte</u>. Le ministre déclarait dans ce document que cette méthode, suivie au cours des dernières années, donnait au public ainsi qu'aux professions juridique et comptable l'occasion de participer utilement à l'élaboration de la législation fiscale.

Le ministre a déclaré qu'un comité de fiscalistes professionnels a été formé afin d'étudier les propositions des résolutions 23 et 24 du budget de novembre portant sur la déduction des frais d'intérêt. La date d'entrée en vigueur de ces propositions sera repoussée jusqu'à l'achèvement de l'étude, et elles ne s'appliqueraient de toute façon pas avant 1983.

Canada

Release

From the Office of

Honourable Allan J. MacEachen
Deputy Prime Minister
and Minister of Finance

House of Commons, Ottawa

2-77

onday, July 5, 1982

ficial International Reserves

eputy Prime Minister and Minister of inance Allan J. MacEachen announced oday the level and composition of anada's official international reserves n June 30, 1982, as follows:

(Millions of U.S. Dollars)

.S. Dollars		1,689.1
ther Foreign Currencies		22.3
old		778.1
pecial Drawing Rights		70.1
eserve Position in IMF		366.6
otal:	June 30, 1982	2,926.3
	May 31, 1982	2,870.3
	Change	+56.0

he change in reserves in June included decrease of $35.6 million in SDR-denominated ssets reflecting depreciation of the U.S. ollar value of the SDR.

he change also included drawings totalling .S. $600 million under the standby credit acility with the Canadian chartered banks nd $1.0 billion under the standby credit

Communiqué

Du Cabinet de

l'honorable Allan J. MacEachen
vice-premier ministre
et ministre des Finances

Chambre des communes, Ottawa

82-77

le lundi 5 juillet 1982

Réserves officielles de liquidités internationales

Le Vice-premier ministre et ministre des Finances, Allan J. MacEachen, a publié aujour-d'hui l'état des réserves canadiennes officielles de liquidités internationales arrêté le 30 juin 1982:

(En millions de dollars E.-U.)

Dollars E.-U.		1,689.1
Autres devises étrangères		22.3
Or		778.1
Droits de tirage spéciaux		70.1
Position active au FMI		366.6
Total:	30 juin 1982	2,926.3
	31 mai 1982	2,870.3
	Variation	+56.0

La variation des réserves en juin comportait une baisse de $35.6 millions en raison de la dépréciation de la valeur en dollars américains des avoirs libellés en droits de tirage spéciaux.

Cette variation comprenait aussi une augmentation de $600 millions E.-U. provenant d'un tirage effectué sur la ligne de crédit renouvelable avec les banques à

.../2

facility with U.S. and other foreign banks. On June 30, drawings outstanding under the $3.5 billion credit facility with the Canadian chartered banks totalled $900 million, while drawings outstanding under the $3.0 billion facility with foreign banks totalled $1.5 billion.

The change also included the proceeds of a U.S. $750 million public offering of notes in the Eurobond market.

There were no gold sales.

charte canadiennes et une augmentation de $1.0 milliard provenant d'un tirage effect sur la ligne avec les banques américaines et autres banques étrangères. Au 30 juin l'encours des tirages sur la ligne de cré de $3.5 milliards avec les banques à charte canadiennes s'élevait à $900 milli et l'encours des tirages sur la ligne de crédit de $3.0 milliards avec les banques étrangères s'élevait à $1.5 milliard.

Cette variation comprenait aussi le produ d'une offre publique dans le marché Euro-obligataire totalisant $750 millions E.-U

Il n'y a eu aucune vente d'or.

Release

From the Office of

Honourable Allan J. MacEachen
Deputy Prime Minister
and Minister of Finance

House of Commons, Ottawa

-92

dnesday, August 4, 1982

ficial International Reserves

puty Prime Minister and Minister of nance Allan J. MacEachen announced day the level and composition of nada's official international reserves July 31, 1982, as follows:

(Millions of U.S. Dollars)

S. Dollars		2,036.7
her Foreign Currencies		18.6
ld		778.0
ecial Drawing Rights		70.1
serve Position in IMF		366.5
tal:	July 31, 1982	3,270.0
	June 30, 1982	2,926.3
	Change	+343.7

e change in reserves in July included a crease of $0.2 million in SDR-denominated sets reflecting depreciation of the U.S. llar value of the SDR.

e change also included net repayments of S. $750 million under the standby credit cility with U.S. and other foreign banks. July 31, drawings outstanding under this edit facility totalled $750 million, while awings outstanding under the credit facil-y with the Canadian chartered banks talled $900 million.

ere were no gold sales.

Canada

Communiqué

Du Cabinet de

l'honorable Allan J. MacEachen
vice-premier ministre
et ministre des Finances

Chambre des communes, Ottawa

82-92

le mercredi 4 août 1982

Réserves officielles de liquidités internationales

Le Vice-premier ministre et ministre des Finances, Allan J. MacEachen, a publié ce matin l'état des réserves canadiennes officielles de liquidités internationales arrêté le 31 juillet 1982:

(En millions de dollars E.-U.)

Dollars E.-U.		2,036.7
Autres devises étrangères		18.6
Or		778.0
Droits de tirage spéciaux		70.1
Position active au FMI		366.5
Total:	31 juillet 1982	3,270.0
	30 juin 1982	2,926.3
	Variation	+343.7

La variation des réserves en juillet comportait une baisse de $0.2 million en raison de la dépréciation de la valeur en dollars américains des avoirs libellés en droits de tirage spéciaux.

Cette variation comprenait aussi des remboursements de l'ordre de $750 millions E.-U. sur la ligne de crédit renouvelable établie auprès des banques américaines et autres banques étrangères. Au 31 juillet, l'encours des tirages sur cette ligne de crédit s'élevait à $750 millions et l'encours des tirages sur la ligne de crédit avec les banques à charte canadiennes s'élevait à $900 millions.

Il n'y a eu aucune vente d'or.

Release

From the Office of

Honourable Allan J. MacEachen
Deputy Prime Minister
and Minister of Finance

House of Commons, Ottawa

Communiqué

Du Cabinet de

l'honorable Allan J. MacEachen
vice-premier ministre
et ministre des Finances

Chambre des communes, Ottawa

82-94

For immediate release

Ottawa, August 5, 1982.

Finance Minister Allan J. MacEachen released today the regular monthly statement of the government's financial operations for April 1982, the first month of the 1982-83 fiscal year.

For April, budgetary revenues were $2,605 million, expenditures were $5,304 million and there was a deficit of $2,699. For April 1981, revenues were $2,441 million, expenditures were $4,669 million and there was a deficit of $2,228 million.

Publication immédiate

Ottawa, le 5 août 1982.

Le Ministre des Finances, Allan J. MacEachen a publié aujourd'hui l'état mensuel régulier des opérations financières du gouvernement pour le moi d'avril 1982, premier mois de l'année financière 1982-83.

Les chiffres budgétaires d'avril s'établissent ainsi: recettes $2,605 millions, dépenses $5,304 millions d'où un déficit de $2,699 millions. Les chiffres d'avril 1981 s'établissaient $4,669 millions d'où un déficit de $2,228 millions.

Canada

Release

Communiqué

From the Office of

Honourable Allan J. MacEachen
Deputy Prime Minister
and Minister of Finance

House of Commons, Ottawa

Du Cabinet de

l'honorable Allan J. MacEachen
vice-premier ministre
et ministre des Finances

Chambre des communes, Ottawa

82-98

For immediate release

Ottawa, August 24, 1982

Finance Minister Allan J. MacEachen released today the regular monthly statement of the government's financial operations for May 1982 and the first two months of the 1982-83 fiscal year.

For May, budgetary revenues were $5,126 million, expenditures were $5,304 million and there was a deficit of $178 million. For May 1981, revenues were $4,298 million, expenditures were $4,602 million and there was a deficit of $304 million.

For the first two months of the 1982-83 fiscal year, budgetary revenues were $7,731 million, expenditures were $10,608 million and there was a deficit of $2,877 million. For the same period last year, revenues were $6,739 million, expenditures were $9,271 million and there was a deficit of $2,532 million.

Publication immédiate

Ottawa, le 24 août, 1982

Le Ministre des Finances, Allan J. MacEachen a publié aujourd'hui l'état mensuel régulier des opérations financières du gouvernement pour le mois de mai 1982 et les deux premiers mois de l'année financière 1982-83.

Les chiffres budgétaires de mai s'établissent ainsi: recettes $5,126 millions, dépenses $5,304 millions, d'où un déficit de $178 millions. Les chiffres de mai 1981 s'établissaient ainsi: recettes $4,298 millions, dépenses $4,602 millions, d'où un déficit de $304 millions.

Les deux premiers mois de l'année financière 1982-83 ont produit des recettes budgétaires de $7,731 millions, dépenses de $10,608 millions, d'où un déficit de $2,877 millions. La période correspondante de l'an dernier avait donné des recettes de $6,739 millions, des dépenses de $9,271 millions et un déficit de $2,532 millions.

Canada

Release

Communiqué

From the Office of

Honourable Allan J. MacEachen
Deputy Prime Minister
and Minister of Finance

House of Commons, Ottawa

Du Cabinet de

l'honorable Allan J. MacEachen
vice-premier ministre
et ministre des Finances

Chambre des communes, Ottawa

82-99

For immediate release

Ottawa, August 25, 1982

Finance Minister Allan J. MacEachen released today the details of preliminary revenue and expenditure figures for the fiscal year 1981-82 and of the assets and liabilities as at March 31, 1982.

Revenues for the fiscal year were $54,552 million, expenditures were $67,958 million and the budgetary deficit was $13,406 million. For the fiscal year 1980-81, revenues were $46,507 million, expenditures were $59,175 million and there was a budgetary deficit of $12,668 million.

The preliminary figures for 1981-82 differ from the June 28, 1982 Budget estimate mainly as a result of accounting differences but also due to the normal process of collecting and tabulating the final series. Financial requirements, at $8,331 million, are substantially the same as the $8,340 million anticipated in the

Publication immédiate

Ottawa, le 25 août 1982

Le ministre des Finances, Allan J. MacEachen a aujourd'hui dévoilé l'état préliminaire des recettes et des dépenses pour l'année financière 1981-82 ainsi que de l'actif et du passif au 31 mars 1982.

Pour l'année financière, les recettes se sont élevées à $54,552 millions, les dépenses à $67,958 millions et le déficit budgétaire à $13,406 millions. En ce qui concerne l'année financière 1980-81, les recettes s'étaient élevées à $46,507 millions, les dépenses à $59,175 millions et le déficit budgétaires à $12,668 millions.

Les chiffres préliminaires pour 1981-82 sont différents des chiffres indiqués dans le budget des dépenses du 28 juin 1982, en raison surtout des différences de comptabilisation mais aussi du procédé habituel de collecte et de mise en tableaux des chiffres définitifs. Les besoins financiers, établis à $8,331 millions, sont presque les mêmes que ceux prévus dans le budget,

Canada

Budget. However, budgetary revenues are higher by $787 million and budgetary expenditures by $1,258 million with a $471 million widening of the budgetary deficit. This revision to the deficit is balanced by an offsetting $480 million revision to non-budgetary transactions.

The budgetary deficit at $13,406 million is $471 million above the June 1982 Budget estimate. The increase in the deficit is for the most part explained by higher public debt charges ($98 million), higher pension charges to budgetary expenditure ($190 million) and lower budgetary revenue ($99 million) as a result of post-closing entries.

In addition, there are two major differences in accounting treatment between the Budget and the Preliminary Financial Statements. The Budget treats Canada Post as a Crown corporation throughout 1981-82 while the preliminary figures treat Canada Post as a Crown corporation only from October 16, 1981, the date of its commencement. The Budget also netted the Special Petroleum Compensation Charges against Petroleum Compensation Payments. The effect of these differences, $484 million for Canada Post and $402 million for the Special Petroleum Compensation Charges, is to raise budgetary revenues and budgetary expenditures equally, by $886 million, without affecting the deficit.

At March 31, 1982, gross recorded liabilities amounted to $134,106 million of which $87,541 million consisted of unmatured debt payable in Canadian currency. Net recorded assets totalled $39,437 million and the accumulated deficit amounted to $94,669 million.

soit $8,340 millions. Toutefois, les recettes budgétaires dépassent de $787 millions les prévisions tandis que les dépenses budgétaires dépassent les prévisions par $1,258 millions et le déficit budgétaire s'est accru de $471 millions. Cette augmentation du déficit est compensée par un rajustement de $480 millions des transactions non budgétaires.

Le déficit budgétaire de $13,406 millions est $471 millions de plus que les prévisions du budget de juin 1982. L'augmentation du déficit est expliquée principalement par des imputations plus élevés aux dépenses budgétaires en ce qui concerne le service de la dette publique ($98 millions), les fonds de retraite ($190 millions), ainsi que des recettes budgétaires réduites ($99 millions), résultant des écritures postérieures à la date de clôture de l'exercice.

En plus, il y a deux différences majeures de traitement de comptabilité entre le budget et les états financiers préliminaires. Le budget considère le ministère des Postes comme une société de la Couronne pour toute l'année 1981-82, alors que le calcul des chiffres préliminaires considère le ministère des Postes comme une société de la Couronne seulement à partir du 16 octobre 1981, date de son établissement. Le budget a contrebalancé les recettes nettes totales de compensation sur le pétrole contre les paiements de compensation relatifs au pétrole. Le résultat de ces différences, $484 millions pour le ministère des Poste et $402 millions pour les recettes de compensation relatives au pétrole, est d'augmenter également les recettes et dépenses budgétaires de $886 millions sans affecter le déficit.

Au 31 mars 1982, le passif brut comptabilisé s'élevait à $134,106 millions, dont $87,541 millions constituent une dette non échue payable en devises canadiennes. L'actif net comptabilisé total s'élevait à $39,437 millions et le déficit accumulé à $94,669 millions.

Department of Finance
Canada

Ministère des Finances
Canada

Information Division
Ottawa, Ont. K1A 0G5
(613) 992-1573

Division de l'Information
Ottawa (Ont.) K1A 0G5
(613) 992-1573

Release

Communiqué

82-104

For immediate release

Ottawa, September 24, 1982

The Honourable Marc Lalonde, Minister of Finance, released today the regular monthly statement of the government's financial operations for June 1982 and the first three months of the 1982-83 fiscal year.

For June, budgetary revenues were $3,812 million, expenditures were $5,878 million and there was a deficit of $2,066 million. For June 1981, revenues were $4,247 million, expenditures were $5,041 million and there was a deficit of $794 million.

For the first three months of the 1982-83 fiscal year, budgetary revenues were $11,543 million, expenditures were $16,486 million and there was a deficit of $4,943 million. For the same period last year, revenues were $10,986 million, expenditures were $14,312 million and there was a deficit of $3,326 million.

Publication immédiate

Ottawa, le 24 septembre, 1982

L'honorable Marc Lalonde, ministre des Finances, a publié aujourd'hui l'état mensuel régulier des opérations financières du gouvernement pour le mois de juin 1982 et les trois premiers mois de l'année financière 1982-83.

Les chiffres budgétaires de juin s'établissent ainsi: recettes $3,812 millions, dépenses $5,878 millions, d'où un déficit de $2,066 millions. Les chiffres de juin 1981 s'établissaient ainsi: recettes $4,247 millions, dépenses $5,041 millions, d'où un déficit de $794 millions.

Les trois premiers mois de l'année financière 1982-83 ont produit des recettes budgétaires de $11,543 millions, dépenses de $16,486 millions, d'où un déficit de $4,943 millions. La période correspondante de l'an dernier avait donné des recettes de $10,986 millions, des dépenses de $14,312 millions et un déficit de $3,326 millions.

Canada

Department of Finance
Canada

Information Division
Ottawa, Ont. K1A 0G5
(613) 992-1573

Ministère des Finances
Canada

Division de l'Information
Ottawa (Ont.) K1A 0G5
(613) 992-1573

Release

Communiqué

82-119

For immediate release

Ottawa, October 27, 1982.

The Honourable Marc Lalonde, Minister of Finance, released today the regular monthly statement of the government's financial operations for July and the first four months of the 1982-83 fiscal year.

For July, budgetary revenues were $5,039 million, expenditures were $7,085 million and there was a deficit of $2,046 million. For July 1981, revenues were $4,223 million, expenditures were $5,516 million and there was a deficit of $1,293 million.

For the first four months of the 1982-83 fiscal year, budgetary revenues were $16,582 million, expenditures were $23,571 million and there was a deficit of $6,989 million. For the same period last year, revenues were $15,209 million, expenditures were $19,828 million and there was a deficit of $4,619 million.

Publication immédiate

Ottawa, le 27 octobre, 1982.

L'honorable Marc Lalonde, ministre des Finances, a publié aujourd'hui l'état mensuel régulier des opérations financières du gouvernement pour le mois de juillet 1982 et les quatre premiers mois de l'année financière 1982-83.

Les chiffres budgétaires de juillet s'établissent ainsi: recettes $5,039 millions, dépenses $7,085 millions, d'où un déficit de $2,046 millions. Les chiffres de juillet 1981 s'établissaient ainsi: recettes $4,223 millions, dépenses $5,516 millions, d'où un déficit de $1,293 millions.

Les quatre premiers mois de l'année financière 1982-83 ont produit des recettes budgétaires de $16,582 millions, dépenses de $23,571 millions, d'où un déficit de $6,989 millions. La période correspondante de l'an dernier avait donné des recettes de $15,209 millions, des dépenses de $19,828 millions et un déficit de $4,619.

Canada

Department of Finance
Canada

Information Division
Ottawa, Ont. K1A 0G5
(613) 992-1573

Release

82-131

For immediate release

Ottawa, November 16, 1982.

The Honourable Marc Lalonde, Minister of Finance, released today the regular monthly statement of the government's financial operations for August and the first five months of the 1982-83 fiscal year.

For August, budgetary revenues were $4,149 million, expenditures were $5,840 million and there was a deficit of $1,691 million. For August 1981, revenues were $4,235 million, expenditures were $4,907 million and there was a deficit of $672 million.

For the first five months of the 1982-83 fiscal year, budgetary revenues were $20,731 million, expenditures were $29,411 million and there was a deficit of $8,680 million. For the same period last year, revenues were $19,444 million, expenditures were $24,735 million and there was a deficit of $5,291 million.

Ministère des Finances
Canada

Division de l'Information
Ottawa (Ont.) K1A 0G5
(613) 992-1573

Communiqué

Publication immédiate

Ottawa, le 16 novembre 1982.

L'honorable Marc Lalonde, ministre des Finances, a publié aujourd'hui l'état mensuel régulier des opérations financières du gouvernement pour le mois d'août 1982 et les cinq premiers mois de l'année financière 1982-83.

Les chiffres budgétaires d'août s'établissent ainsi: recettes $4,149 millions, dépenses $5,840 millions, d'où un déficit de $1,691 millions. Les chiffres d'août 1981 s'établissaient ainsi: recettes $4,235 millions, dépenses $4,907 millions, d'où un déficit de $672 millions.

Les cinq premiers mois de l'année financière 1982-83 ont produit des recettes budgétaires de $20,731 millions, dépenses de $29,411 millions, d'où un déficit de $8,680 millions. La période correspondante de l'an dernier avait donné des recettes de $19,444 millions, des dépenses de $24,735 et un déficit de $5,291 millions.

Canada

Department of Finance
Canada

Information Division
Ottawa, Ont. K1A 0G5
(613) 992-1573

Release

82-141

For immediate release

Ottawa, December 7, 1982.

The Honourable Marc Lalonde, Minister of Finance, released today the regular monthly statement of the government's financial operations for September and the first six months of the 1982-83 fiscal year.

For September, budgetary revenues were $4,077 million, expenditures were $6,044 million and there was a deficit of $1,967 million. For September 1981, revenues were $5,229 million, expenditures were $5,458 million and there was a deficit of $229 million.

For the first six months of the 1982-83 fiscal year, budgetary revenues were $24,808 million, expenditures were $35,455 million and there was a deficit of $10,647 million. For the same period last year, revenues were $24,673 million, expenditures were $30,193 million and there was a deficit of $5,520 million.

Ministère des Finances
Canada

Division de l'Information
Ottawa (Ont.) K1A 0G5
(613) 992-1573

Communiqué

Publication immédiate

Ottawa, le 7 décembre 1982.

L'honorable Marc Lalonde, ministre des Finances, a publié aujourd'hui l'état mensuel régulier des opérations financières du gouvernement pour le mois de septembre 1982 et les six premiers mois de l'année financière 1982-83.

Les chiffres budgétaires de septembre s'établissent ainsi: recettes $4,077 millions, dépenses $6,044 millions, d'où un déficit de $1,967 millions. Les chiffres de septembre 1981 s'établissaient ainsi: recettes $5,229 millions, dépenses $5,458 millions, d'où un déficit de $229 millions.

Les six premiers mois de l'année financière 1982-83 ont produit des recettes budgétaires de $24,808 millions, dépenses de $35,455 millions, d'où un déficit de $10,647 millions. La période correspondante de l'an dernier avait donné des recettes de $24,673 millions, des dépenses de $30,193 et un déficit de $5,520 millions.

Canada

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, April 19, 1983

PLAN PRESENTED FOR INFLATION-INDEXING OF GAINS ON SHARES

The Honourable Marc Lalonde, Minister of Finance, released tonight with his budget speech the details of the Indexed Security Investment Plan (ISIP) -- a measure that will exempt from tax the inflationary portion of capital gains on publicly-traded common shares of Canadian companies.

The ISIP will result in a substantial reduction in the tax on gains on qualifying shares. The experience of the past 20 years in the movement of stock prices suggests that the effective rate of tax on income from public share investments would have been reduced by over one-half if the plan had been in effect over that period.

It is estimated that the plan, when fully matured, will result in savings to individual Canadians of $300 million a year in federal taxes. There will be additional savings in provincial taxes.

The Minister described the ISIP as "an essential element of the government's recovery program."

"The plan will encourage Canadians to invest a greater proportion of their savings in listed common shares of Canadian companies. This will assist Canadian corporations to raise additional equity capital and reduce their reliance on debt financing."

Mr. Lalonde added that the new measure is a timely response to the concern expressed to him by business groups about the excessive debt load on corporate balance sheets.

The plan, originally suggested in the June 28, 1982 budget, was then called the Registered Shareholder Investment Plan. It was designed to help overcome the distorting impact of inflation on the tax liabilities of individuals. The plan was subsequently referred to an Advisory Committee of private sector representatives chaired by Mr. Pierre Lortie, President of the Montreal Exchange. The draft legislation for the implementation of the plan released by the Minister follows very closely the recommendations made by the committee.

The Minister indicated that there have been extensive consultations with private sector representatives in the design and development of the Indexed Security Investment Plan.

"The process of consultation and frank and open discussion leading up to this proposal has been most valuable and in my view a highly desirable model to follow in dealing with complex and innovative tax measures such as this one," he said.

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Canadian residents and most trusts will be eligible to invest through ISIPs. The plans may be administered by an investment dealer, broker, bank, credit union, trust company, mutual fund or insurer. Trading in shares will be done in the normal way, with the administrator providing the investor at year-end with an information slip containing all the information necessary for the individual's tax return.

The basic mechanics of the plan are quite straightforward. For example, assume that an investor buys $1,000 of securities at the beginning of a year and that they increase in value to $1,100 by the year-end. If the securities were purchased in an ISIP and inflation were 6 per cent over the year, their cost would be adjusted to $1,060 and the capital gains recognized for tax purposes would be only $40. By contrast, if the securities were purchased outside an ISIP, all of the $100 increase in the nominal value of the securities would be recognized as a capital gain when the securities were eventually sold. Of course, in both cases the tax would apply to only one-half of the recognized capital gain.

One of the attractive features of the ISIP is that taxpayers will be permitted to spread the tax on capital gains over several years. Thus, in the example above, the investor will be required to take into account in the first year only one-quarter of the real capital gain in the ISIP or $10, with only one-half of this amount, or $5, included that year in his income subject to tax. The $30 balance of the capital gain will be reported for tax purposes in later years. As a general rule under ISIP, taxpayers will be required to report each year only one-quarter of the total of the capital gain from the ISIP for the current year plus the amount deferred from previous years.

While the inflation adjustment in an ISIP reduces the amount of capital gain, it increases the amount of capital loss recognized for tax purposes. Thus in the example above, if the securities were worth only $900 at the end of the year, the capital loss would be calculated still using the adjusted cost figure of $1,060. The result would be a capital loss for tax purposes of $160, even though the loss on the nominal value of the shares is only $100.

There will be no restriction on the amount of ISIP losses a taxpayer may deduct against income from other sources such as wages and salaries, dividends, and interest income. The ISIP losses, while deductible against non-capital income from any source without any limit, will be recognized for tax purposes over time using the same 25-per-cent amortization rule that applies to capital gains in the plan.

The Minister announced that the date for implementation of the ISIP measure would be October 1, 1983. The ISIP document tabled with his budget speech includes draft legislation and explanatory notes to help provide a better understanding of its details, and the Minister has invited comments on it to be submitted by May 31. This will allow time for the consideration of public comments and representations before the final legislation is introduced.

«Le processus de consultation et les entretiens ouverts qui ont mené à cette proposition ont été des plus précieux et représentent, à mon avis, un modèle à suivre pour examiner des dispositions fiscales complexes et innovatrices telles que celle-là», a-t-il déclaré.

Les résidents canadiens et la plupart des fiducies seront admissibles à un RPTI. Les régimes pourraient être administrés par un négociant ou un courtier en valeur, une banque, une caisse de crédit, une compagnie de fiducie, un fonds mutuel ou un assureur. Les achats et ventes d'actions se feront normalement, l'administrateur fournissant en fin d'année à l'investisseur une feuille de renseignements contenant toutes les données nécessaires pour qu'il complète sa déclaration d'impôt.

Le fonctionnement du régime est assez simple. Si l'on suppose, par exemple, qu'un investisseur achète pour $1,000 de titres au début de l'année et que ses titres valent $1,100 à la fin de l'année. Si les titres ont été achetés dans le cadre d'un RPTI et que l'inflation ait été de 6 pour cent pendant l'année, leur coût indexé serait de $1,060 et le gain en capital pris en compte pour l'impôt serait réduit à $40. Par contre, si les titres étaient achetés hors d'un RPTI, les $100 de hausse de la valeur nominale des titres seraient entièrement pris en compte comme gain en capital lorsque les titres seraient revendus. Evidemment, dans les deux cas, l'impôt ne s'appliquerait qu'à la moitié du gain en capital pris en compte.

L'un des aspects intéressants du RPTI est que les contribuables pourront étaler sur plusieurs années l'impôt frappant les gains en capital. Ainsi, dans l'exemple précédent, l'investisseur ne serait obligé de tenir compte, la première année, que d'un quart du gain en capital réel du RPTI, soit $10, dont la moitié seulement, soit $5, serait inclue pour l'année dans son revenu imposable. Le solde du gain en capital, soit $30, serait déclaré plus tard aux fins de l'impôt. En règle générale, les contribuables ayant un RPTI ne devront déclarer chaque année que le quart du gain en capital total du régime pour l'année en cours, plus le montant différé des années précédentes.

Si la correction de l'inflation dans un RPTI diminue le gain en capital, elle accroît la perte en capital prise en compte aux fins de l'impôt. Par exemple, dans le cas précédent, si les titres ne valaient que $900 à la fin de l'année, la perte en capital serait quand même calculée par rapport au coût corrigé de $1,060. Il en résulterait, aux fins de l'impôt, une perte en capital de $160, malgré une baisse de valeur nominale de $100 seulement.

Les pertes d'un RPTI que le contribuable pourrait déduire de son revenu d'autres sources -- salaires, dividendes ou intérêt -- ne seraient soumises à aucune limitation. Les pertes de RPTI, tout en étant déductibles du revenu d'autres sources, sans aucune restriction, seraient prises en compte aux fins de l'impôt à l'aide de la même règle d'amortissement à raison de 25 pour cent qui est prévu pour les gains en capital d'un régime.

Le ministre a annoncé que la date d'application du RPTI serait le 1er octobre 1983. Le document déposé avec son discours du budget comprend un avant-projet de législation et des notes explicatives qui permettent de mieux comprendre les détails de la proposition. Le ministre a invité le public a faire connaître ses observations d'ici le 31 mai. Cela laissera le temps d'étudier les observations soumises avant le dépôt d'un projet de loi définitif.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Publication immédiate

Ottawa, le 19 avril 1983

PROJET D'INDEXATION DES GAINS SUR LES ACTIONS

Le ministre des Finances, l'honorable Marc Lalonde, a publié ce soir, en même temps que son discours du budget, les détails d'un Régime de placements en titres indexés (RPTI), qui exonérerait d'impôt la partie inflationniste des gains en capital sur les actions ordinaires négociées publiquement de compagnies canadiennes.

Le RPTI permettra de réduire sensiblement l'impôt frappant les gains sur les actions admissibles. L'évolution du prix des actions depuis 20 ans porte à croire que le taux effectif d'imposition du revenu tiré de placements en actions publiques aurait été réduit de plus de moitié si le régime avait alors été en vigueur.

On estime que le régime, une fois parvenu à maturité, permettra aux particuliers d'économiser $300 millions d'impôts fédéraux par an. A cela s'ajouteront des économies d'impôts provinciaux.

Le ministre a décrit le RPTI comme un élément essentiel du programme de relance du gouvernement.

«Le régime encouragera les Canadiens à investir une plus forte proportion de leur épargne en actions ordinaires cotées de sociétés canadiennes. Cela aidera les entreprises canadiennes à obtenir des capitaux propres supplémentaires et à moins dépendre des capitaux d'emprunt.»

M. Lalonde a ajouté que la nouvelle mesure tenait compte de façon opportune de la préoccupation exprimée par des groupes d'affaires au sujet de l'endettement excessif des sociétés.

Le régime, suggéré initialement dans le budget du 28 juin 1982, portait alors la désignation de régime enregistré de placements-actions. Il visait à corriger les effets que l'inflation produisait sur les impôts à payer par les particuliers. Le projet de régime avait ensuite été soumis à un comité consultatif composé de représentants du secteur privé, sous la direction de M. Pierre Lortie, président de la Bourse de Montréal. Le projet de législation publié par le ministre pour mettre en oeuvre le régime suit de très près les recommandations du comité.

Le ministre a indiqué que des consultations intenses avaient été effectuées avec des représentants du secteur privé afin de concevoir et de mettre au point le Régime de placements en titres indexés.

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, February 15, 1984

BUDGET ALLOWS FARMERS TAX-FREE ROLLOVER FOR CAPITAL GAINS TO BUILD PENSIONS

Farmers selling their farm property will be allowed a special tax-free rollover of up to $120,000 in taxable capital gains invested in a registered retirement savings plan (RRSP), the Honourable Marc Lalonde, Minister of Finance, announced today in his budget.

This new measure is designed to help farmers better provide for their retirement. It will be particularly beneficial to those farmers who are unable to make retirement savings contributions during their working lives and who look to the proceeds from the sale of a farm property to provide a retirement income.

The maximum amount of taxable capital gains that will be eligible for the tax-free rollover will be $10,000 for each year of full-time farming between 1972 and 1983 inclusive, less any contributions to an RRSP or registered pension plan made after 1983.

A special provision will extend the benefit to farmers who would otherwise qualify but have passed the 71-year age limit for contributing to an RRSP.

The tax-free rollover limit would apply to the RRSP contribution of the taxable half of the capital gains: half of capital gains are already exempt from income tax.

To qualify for the new benefit, the farm property must have been owned by the taxpayer or spouse on December 31, 1983. The plan covers farm land, buildings and equipment used for farming by the taxpayer, spouse or children, and includes shares in a family farm corporation or an interest in a family farm partnership.

This new tax measure will permit savings in federal income tax of an estimated $70 million in a full year, with savings on provincial income tax of about half that amount.

The measure will provide significant relief for farmers in the period prior to the full implementation of the broad pension reform measures set out in the budget paper "Building Better Pensions for Canadians -- Improved Tax Assistance for Retirement Saving". Under this broad plan, farmers (like other small business owners) will be able to carry forward their unused RRSP deduction entitlements from one year to the next. This will enable them to transfer funds from the sale of their farm business into retirement savings plans when they retire, using tax deduction entitlements built up during their working years.

To help maintain family farms, the budget also proposes a number of changes to facilitate transfers of a farm from one generation to another. Under existing tax law, these kind of transfers are not subject to capital gains taxation.

-- The tax-exempt treatment will be extended to the transfer of farms to foster children who were not formally adopted.

-- On the death of a farm owner after 1983, the transfer of farm property will be allowed to be made at any amount between the property's cost and its fair market value. This puts family farm bequests and inheritances on the same basis as transfers made before death.

-- Tax-free rollover treatment will be provided in the special case where a child who received a farm from a parent dies while the parent is still living. In this situation, the farm could be passed back to the parent without immediate tax liability.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, February 15, 1984

BUDGET PROPOSES SALES TAX CHANGES

The government has decided against shifting the basis of the federal sales tax from the manufacturers' level to the wholesale level, the Honourable Marc Lalonde, Minister of Finance, announced today in his budget.

The decision follows the recommendation of the Federal Sales Tax Review Committee appointed a year ago to examine sales tax issues. The Committee concluded that a shift in the tax to the wholesale level would produce only marginal improvements in the system and that these would not justify the disruption that would be caused.

Instead of changing the general application of tax, the government will review any inequities in the application of the tax on a sector by sector basis and make appropriate changes. One such change involves the automotive industry. Mr. Lalonde announced that the sales tax on motor vehicles will be shifted to the wholesale level from the manufacturers' level to end the unfair advantage imported vehicles have. Currently, North American vehicles are taxed $100 to $200 more than comparable vehicles produced in Japan and Europe. The change will bring about the uniform application of tax to all highway vehicles, regardless of origin.

Mr. Lalonde also announced that the government is proceeding with the Committee's recommendation to enact a full and proper system of assessments and appeals. The Committee's recommendations to provide a refund of tax on sales that become bad debts, to credit interest on overdue tax refunds, and to correct other technical and administrative shortcomings in the Excise Tax Act are also being implemented. A number of the proposed changes are outlined below.

Interest Payments

Interest will be paid on all tax refunds and overpayments which are outstanding more than 60 days after an application for refund has been filed with Revenue Canada. The current $1\frac{1}{2}$ per cent monthly penalty imposed for late tax remittance will be separated into a penalty of $\frac{1}{2}$ per cent per month and interest charged at a prescribed rate. A single rate of interest will be prescribed for both late tax remittances and tax refunds.

Assessments and Appeals

A formal system of assessment and appeals will be incorporated into the Excise Tax Act. Once notice of assessment has been issued, taxpayers will have 180 days to file a notice of objection. Following review of the objection, the taxpayer will have 90 days to initiate an appeal either to the Tariff Board or the Federal Court.

At the same time, the current system of informal discussion and negotiation between the taxpayer and Revenue Canada will be retained as an alternate method of resolving problems.

The jurisdiction of the Tariff Board, which currently extends only to questions of exemptions and tax rates, will be expanded to include the status of a person as a producer or manufacturer. If a suitable system of notional values can be codified, the jurisdiction will be expanded to include all aspects of assessments and disallowances of refund claims.

Marginal Manufacturing

Changes will be made to clarify the provision regarding marginal manufacturing which was introduced in January 1981 to cover a wide range of activities such as packaging and reprocessing. The budget proposes to delete the phrase "otherwise prepares goods for sale" from the definition of activities subject to tax. It will add a specific category of persons who prepare goods for sale by applying coatings or finishes.

Bad Debts

Manufacturers will be allowed a refund of sales tax paid on credit sales that have been written off as bad debts.

Other Changes

The budget proposes:

-- the removal of criminal penalties for non-payment of sales and excise tax in circumstances that do not amount to tax evasion;

-- legislative amendments to clarify the status of returnable containers for tax-exempt goods and of X-ray equipment used for non-medical purposes;

-- an amendment to the provisions relating to time periods for filing refund claims;

-- removal of the requirement that manufacturers and wholesalers show the sales tax separately on invoices;

-- an amendment to the Excise Tax to accommodate "brew-pubs"; breweries will be allowed to operate a tavern on the same premises as their manufacturing operation.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, February 15, 1984

BUDGET SHIFTS MOTOR VEHICLE TAX TO WHOLESALE LEVEL TO HELP CANADIAN AUTOMOTIVE INDUSTRY

The federal sales tax on motor vehicles will be shifted from the manufacturers' level to the wholesale level March 1, 1984 to end the unfair advantage imported overseas automobiles currently have, the Honourable Marc Lalonde, Minister of Finance, announced today in his budget.

The action responds to recommendations made to the federal government by the Task Force on Canadian Motor Vehicle and Automotive Parts Industries.

The change will bring about the uniform application of tax to all highway vehicles, regardless of origin.

Currently, the 9 per cent federal sales tax on motor vehicles produced in Canada is calculated on the basis of their sale price to retailers. The 9 per cent tax on vehicles produced outside Canada is calculated on the basis of their duty-paid value.

These different tax bases have resulted in North American vehicles being taxed $100 to $200 more than comparable vehicles produced in Japan and Europe.

The proposed change will not affect the sales tax on Canadian-made vehicles. It will lead to a reduction in tax on vehicles made in the United States and an increase in tax on Japanese and European vehicles.

The change will support growth and employment in the Canadian auto industry, Mr. Lalonde said.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, February 15, 1984

BUDGET CREATES AID-TRADE FUND

The government will establish an Aid-Trade Fund to support an expanded role for the private sector in Canada's international development assistance efforts, the Honourable Marc Lalonde, Minister of Finance, announced today in his budget.

The Minister said that by 1990, as much as $1.3 billion could be allocated to the fund to provide financing for projects which have high priority in recipient countries' development plans, for which Canadian firms are competitive, and for which development assistance financing is required.

Mr. Lalonde said the new fund would be an important means of achieving the government's objective to increase its assistance to developing countries from 0.5 per cent of GNP by the middle of the 1980s to 0.7 per cent by the end of the decade. As much as one-half of Canada's increased expenditures on development assistance would be allocated to the fund.

The establishment of the Aid-Trade Fund, Mr. Lalonde said, underlines the government's hope that the Canadian private sector will play a more active role in the developing countries. It also takes account of the balance of payments problems which are impeding the development efforts of these countries and thus their capacity to import. "To respond to these needs, for our own benefit as well as theirs, we will require closer coordination of our development assistance and our export financing policies", the Minister said.

Mr. Lalonde said that the government will develop guidelines for the use of the Aid-Trade Fund in consultation with the business community.

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, February 15, 1984

BUDGET EXTENDS SUSPENSION OF INCREMENTAL OIL REVENUE TAX

The government will postpone reintroducing the Incremental Oil Revenue Tax (IORT) for another year until June 1, 1985 to help the petroleum industry, the Honourable Marc Lalonde, Minister of Finance, announced today in his budget.

In announcing the continued suspension, Mr. Lalonde cited the need to assist Canadian companies that are typically among the most aggressive in searching for new supplies of oil and gas.

The continued suspension will provide $195 million of federal tax saving for the petroleum industry.

The IORT generally applies to oil known to exist prior to 1981, and is payable at a rate of 50 per cent on revenues from oil prices exceeding those scheduled under the National Energy Program after allowing a deduction for government levies.

The one year suspension complements other recent tax announcements in the energy sector including the reduction in the Natural Gas and Gas Liquids Tax rate to zero, and the two-year postponement of the new Canadian exploration expense definition, which benefits gas producers and sponsors of enhanced oil recovery projects.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Publication immédiate

Ottawa, le 15 février 1984

LE BUDGET PROLONGE LA SUSPENSION DE LA TAXE SUR LES RECETTES PÉTROLIÈRES SUPPLÉMENTAIRES

Le gouvernement repoussera d'une autre année, jusqu'au 1 juin 1985, le rétablissement de la taxe sur les recettes pétrolières supplémentaires (TRPS) pour aider l'industrie pétrolière, a annoncé aujourd'hui dans son budget l'honorable Marc Lalonde, ministre des Finances.

En annonçant cette mesure, M. Lalonde a invoqué la nécessité de venir en aide aux entreprises canadiennes qui sont généralement parmi les plus dynamiques dans la recherche de nouveaux gisements de pétrole et de gaz.

La poursuite de la suspension de la TRPS permettra à l'industrie pétrolière d'économiser $195 millions d'impôts fédéraux.

La TRPS, qui s'applique généralement à tout le pétrole dont l'existence était connue avant 1981, est égale à 50 pour cent des recettes provenant de prix du pétrole supérieurs à ceux prévus dans le Programme énergétique national, après une déduction au titre des prélèvements gouvernementaux.

Cette suspension d'un an complète d'autres mesures fiscales récentes annoncées dans le secteur de l'énergie, notamment la réduction à zéro du taux de la taxe sur le gaz naturel et les liquides du gaz et la remise à plus tard, pour deux autres années, de la nouvelle définition des frais d'exploration au Canada, ce qui bénéficie aux producteurs du gaz et aux promoteurs de projets de récupération améliorée du pétrole.

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Publication immédiate

Ottawa, le 15 février 1984

FONDS POUR L'AIDE ET LE COMMERCE INTERNATIONAL PRÉVU DANS LE BUDGET

Le gouvernement créera un Fonds pour l'aide et le commerce international qui permettra au secteur privé d'accroître son rôle dans les efforts canadiens d'aide au développement international, a annoncé aujourd'hui dans son budget l'honorable Marc Lalonde, ministre des Finances.

Le Ministre a déclaré que, d'ici 1990, on pourrait affecter jusqu'à $1.3 milliard à ce fonds pour assurer un financement à des projets qui occupent une place prioritaire dans les plans de développement des pays bénéficiaires, pour lesquels les entreprises canadiennes sont concurrentielles et qui exigent un financement de l'aide au développement.

M. Lalonde a indiqué que ce nouveau fonds constituerait un important moyen d'atteindre l'objectif du gouvernement de porter son aide aux pays en développement de 0.5 pour cent du PNB vers le milieu des années 80 à 0.7 pour cent d'ici la fin de la décennie. Jusqu'à la moitié des dépenses supplémentaires consacrées à l'aide au développement par le Canada serait affectée à ce fonds.

L'établissement du Fonds pour l'aide et le développement international, a souligné M. Lalonde, témoigne de l'espoir du gouvernement de voir le secteur privé canadien jouer un rôle plus actif dans les pays en développement. Il tient également compte des problèmes de balance des paiements qui entravent les efforts de développement de ces pays et ainsi leur capacité d'importer. «Pour répondre à ces besoins, dans notre propre intérêt comme du leur, nous exigerons une meilleure coordination de nos politiques d'aide au développement et de financement des exportations», a affirmé le ministre.

M. Lalonde a ajouté que le gouvernement élaborerait des lignes directrices pour l'utilisation du Fonds en consultation avec le milieu des affaires.

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Publication immédiate

Ottawa, le 15 février 1984

LE BUDGET DÉPLACE LA TAXE SUR LES VÉHICULES AU NIVEAU DU GROS POUR VENIR EN AIDE À L'INDUSTRIE AUTOMOBILE CANADIENNE

La taxe fédérale de vente sur les véhicules automobiles passera du niveau de fabrication à celui du gros le 1 mars 1984 pour mettre fin à l'avantage injustifié donc bénéficient actuellement les automobiles importées d'outre-mer, a annoncé aujourd'hui dans son budget l'honorable Marc Lalonde, ministre des Finances.

Cette mesure répond aux recommandations présentées au gouvernement fédéral par le Groupe d'étude sur l'industrie canadienne des véhicules et des pièces automobiles.

Grâce à cette modification, la taxe s'appliquera de manière uniforme à tous les véhicules routiers, peu importe leur provenance.

Actuellement, la taxe fédérale de vente de 9 pour cent sur les véhicules produits au Canada est calculée sur le prix de vente au détaillant. La taxe de 9 pour cent sur les véhicules produits à l'étranger est calculée sur leur valeur à l'acquitté.

En raison ces assiettes différentes de la taxe, les véhicules nord américains supportent de $100 à $200 de taxe de plus que les véhicules comparables produits au Japon ou en Europe.

Le changement proposé ne modifiera pas la taxe de vente sur les véhicules fabriqués au Canada. Il entraînera une réduction de la taxe sur les véhicules fabriqués aux États-Unis et une augmentation de cette taxe sur les véhicules japonais et européens.

Ce changement favorisera la croissance et l'emploi dans l'industrie automobile canadienne, a déclaré M. Lalonde.

Canada

Ottawa, Canada K1A 0G5
613 992-1573

assujetties à la taxe et d'ajouter une catégorie spécifique de personnes qui préparent des marchandises pour la vente en leur appliquant un enduit ou un fini.

Mauvaises créances

Les fabricants pourront se faire rembourser la taxe de vente payée sur des ventes à crédit qui ont été radiées comme mauvaises créances.

Autres changements

Le budget propose:

- l'abolition des sanctions pénales pour non-paiment de la taxe de vente et d'accise lorsqu'il n'y a pas d'évasion fiscale;

- des modifications législatives afin de préciser le statut des contenants consignés, pour les produits exonérés de la taxe, et du matériel de radiographie utilisé à des fins non médicales;

- une modification des dispositions relatives à la période de production d'une demande de remboursement;

- la suppression de l'exigence, pour les fabricants et grossistes, d'indiquer la taxe de vente à part sur les factures;

- un changement de la Loi sur l'accise afin de tenir compte des «brew-pubs»; les brasseurs seront autorisés à exploiter une taverne sur les lieux mêmes de leur opération de fabrication de la bière.

Paiements d'intérêts

Un intérêt sera versé sur tous les remboursements et paiements en trop de taxe qui sont en souffrance pendant plus de 60 jours après la production d'une demande de remboursement. La pénalité mensuelle de $1\frac{1}{2}$ pour cent imposée actuellement sur les remises tardives de taxe sera divisée en une pénalité de $\frac{1}{2}$ pour cent par mois et un intérêt égal à un taux prescrit. Un même taux d'intérêt sera prescrit pour les remises tardives et les remboursements de taxe.

Cotisations et appels

Un système de cotisation et d'appel sera incorporé à la Loi sur la taxe d'accise. Une fois qu'un avis de cotisation aura été émis, le contribuable aura 180 jours pour produire un avis d'opposition. Après étude du dossier par Revenu Canada, le contribuable aura 90 jours pour faire appel à la Commission du tarif ou à la Cour fédérale.

Simultanément, le système actuel de discussion et de négociation informelle entre le contribuable et Revenu Canada sera maintenu pour permettre de régler les problèmes qui peuvent être résolus de cette façon.

La compétence de la Commission du tarif, qui se limite actuellement aux questions d'exemption et de taux de taxation, sera étendue au statut de producteur ou de fabricant d'une personne. Si un système convenable de valeurs fictives peu être codifié, sa compétence sera étendue à tous les aspects des cotisations et du rejet des demandes de remboursement.

Fabrication marginale

Des changements seront apportés afin de clarifier la disposition touchant la fabrication marginale, qui avait été instaurée en janvier 1981 pour s'appliquer à une vaste gamme d'activités telles que le conditionnement des marchandises et une nouvelle transformation. Le budget propose de supprimer l'expression «otherwise prepares goods for sale» dans la définition anglaise des activités

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Publication immédiate

Ottawa, le 15 février 1984

LE BUDGET PROPOSE DES CHANGEMENTS DE LA TAXE DE VENTE

Le gouvernement a décidé de ne pas faire passer la taxe fédérale de vente du niveau de la fabrication à celui du gros, a annoncé aujourd'hui dans son budget l'honorable Marc Lalonde, ministre des Finances.

Cette décision fait suite aux recommandations du Comité d'étude de la taxe fédérale de vente nommé il y a un an. Le Comité avait conclu qu'un déplacement de la taxe au niveau du gros ne produirait qu'une légère amélioration du système, de sorte que les perturbations entraînées ne seraient pas justifiées.

Au lieu de modifier l'application générale de la taxe, le gouvernement étudiera les iniquités qu'entraîne son imposition dans les divers secteurs, pour apporter des changements en conséquence. L'un de ces changements concerne l'industrie automobile. M. Lalonde a annoncé que la taxe de vente sur les véhicules routiers passerait du niveau de la fabrication à celui du gros, pour mettre fin à l'avantage injustifié dont bénéficient les véhicules importés. Actuellement, les automobiles nord-américaines supportent $100 à $200 de taxe de plus que les véhicules comparables produits au Japon ou en Europe. Le changement permettra d'obtenir une application uniforme de la taxe à tous les véhicules routiers, peu importe leur provenance.

M. Lalonde a également annoncé que le gouvernement, conformément à la recommendation du Comité, mettra en place un système complet de cotisation et d'appel. Il donne également suite aux recommandations du Comité de rembourser la taxe sur les ventes qui deviennent des mauvaises créances, de verser un intérêt sur les remboursements de taxe qui tardent trop et de corriger d'autres lacunes techniques et administratives de la Loi sur la taxe d'accise. Voici un certain nombre des changements proposés.

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Cette nouvelle mesure fiscale permettra aux intéressés d'économiser $70 millions d'impôts fédéraux selon les estimations, pendant une année complète, l'économie d'impôts provinciaux ajoutant une fraction équivalant à environ la moitié de ce montant.

Cette mesure apportera un allégement important aux agriculteurs au cours de la période qui précédera l'entrée en vigueur de la réforme globale des pensions qui est exposée dans le document budgétaire intitulé Des pensions plus accessibles aux Canadiens - Aide fiscale améliorée à l'épargne retraite. D'après cette réforme de grande envergure, les agriculteurs (comme les autres propriétaires de petites entreprises) pourront reporter d'une année à l'autre leurs droits non-utilisés de cotisation déductible à un REER. Cela leur permettra de transférer le produit de la vente de leur ferme à un régime d'épargne retraite lorsqu'ils cessent leurs activités, au moyen des droits de déduction accumulés pendant leurs années actives.

Pour contribuer au maintien des exploitations agricoles familiales, le budget propose également un certain nombre de changements qui faciliteront les transferts de ces exploitations d'une génération à l'autre. D'après les règles fiscales actuelles, ces transferts ne sont pas assujettis au régime fiscal des gains en capital.

-- La possibilité d'exonération fiscale sera élargie au transfert de propriétés agricoles à des enfants adoptifs n'ayant pas fait l'objet d'une procédure formelle d'adoption.

-- Lors du décès d'un propriétaire agricole après 1983, le transfert de la propriété agricole pourra se faire à n'importe quel montant compris entre son coût et sa juste valeur marchande. Les legs et héritages d'exploitations agricoles familiales seront ainsi soumis au même régime que les transferts effectués avant le décès.

-- Une possibilité de transfert en franchise d'impôt sera offerte dans le cas particulier où un enfant, qui a reçu une ferme d'un parent, décède alors que le parent est encore en vie. Dans ce cas, l'exploitation agricole pourra revenir au parent sans entraîner d'assujettissement immédiat à l'impôt.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Publication immédiate

Ottawa, le 15 février 1984

LE BUDGET PERMET AUX AGRICULTEURS DE TRANSFÉRER LEURS GAINS EN CAPITAL EN FRANCHISE D'IMPÔT POUR SE CONSTITUER UNE PENSION

Les agriculteurs qui vendent leurs fermes auront le droit de transférer jusqu'à $120,000 de gains en capital imposables à un régime enregistré d'épargne-retraite (REER), en franchise d'impôt, a annoncé aujourd'hui l'honorable Marc Lalonde, ministre des Finances, dans son budget.

Cette nouvelle mesure aidera les agriculteurs à mieux préparer leur retraite. Elle sera particulièrement profitable pour ceux qui ne peuvent verser des cotisations d'épargne-retraite pendant leur vie active et comptent sur le produit de la vente d'une propriété agricole pour s'assurer un revenu de retraite.

Le montant maximal de gains en capital imposables qui pourra ainsi être transféré en franchise d'impôt sera de $10,000 par année d'exploitation à plein temps de l'agriculture entre 1972 et 1983 inclusivement, moins toute cotisation versée après 1983 à un REER ou un régime enregistré de pension.

Une disposition spéciale étendra ce droit aux agriculteurs qui répondraient à toutes les conditions exigées s'il n'avaient dépassé l'âge-limite de 71 ans pour cotiser à un REER.

Le plafond de transfert en franchise s'appliquera au versement dans un REER provenant de la moitié imposable des gains en capital: une moitié de ces gains est déjà exonérée de l'impôt sur le revenu.

Pour donner droit à ce nouvel avantage, l'exploitation agricole devra appartenir au contribuable ou à son conjoint au 31 décembre 1983. Cette mesure s'applique aux terres agricoles, aux bâtiments et au matériel utilisé pour l'agriculture par le contribuable, son conjoint ou ses enfants -- y compris aux actions d'une corporation agricole familiale ou aux participations dans une société agricole familiale.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

For release at 2000 EST

Ottawa, March 20, 1984

84-36

Notes for an address
by the Honourable Marc Lalonde
Minister of Finance
to the annual meeting
of the Profit Sharing Council of Canada
Toronto
March 20, 1984

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

I am very pleased to be here with the members and guests of the Profit Sharing Council of Canada. Your group has made a major contribution to the Employee Profit Participation Plan which was presented in the budget last month. I look forward to introducing legislation into Parliament with the benefit of your further suggestions and those of many others who have taken a strong interest in this measure.

I want to view the profit participation plan as part of a broad approach to my topic tonight. Although my subject is "Increasing Productivity", it might equally be, "Increasing the Standard of Living"... "Increasing Employment"... "Increasing Exports"... or, for that matter, "Increasing Profits".

Improved productivity, in short, is part and parcel of virtually every essential aspect of economic success. Like you, I believe that profit sharing has helped improve productivity in many Canadian companies. I believe it can do much more in the years ahead. This will especially be the case if gain sharing programs in general are more widely implemented as broadly-based employee plans rather than primarily as executive compensation mechanisms. That is what we hope to encourage by allocating the larger share of tax benefits to employees in our profit participation plan.

Since nothing is more fundamental to profit sharing than profits, let's begin right there. We can start by accepting the fact that the best incentive for profit sharing would be a belief that profits will grow steadily in the years ahead. The stronger the confidence in a sustainable economic recovery and expansion, the more people are likely to be interested in profit sharing.

One of the most positive features of the economic recovery to date is the strong increase in profits. Profits were 55 per cent higher in the fourth quarter of last year than they were a year earlier. Despite this progress, profits remain below the peak reached in 1980.

As finance minister, I have tried to promote a better understanding of the important role of profits in a dynamic economy. It is no coincidence that strong profit levels and strong employment growth are closely linked. I have warned against the tendency of some to misinterpret the fact that profits appear to grow out of all proportion to employment and employment earnings during economic expansion. Of course, the recent dramatic percentage increases in profits merely offset the fact that profits fell even more rapidly during the recession.

The volatility of profits is one reason why profit sharing should be promoted as an additional incentive for workers, not as a substitute for wages. That is not to say that workers' basic incomes can be immune to the impact of economic weakness -- reality tells us that no economy can long survive on that principle. But those kinds of adjustments cannot be made through profit sharing plans. They will always be determined by the basic wage-setting process. In that regard, we can all be encouraged by the way in which the collective bargaining process has accommodated economic reality during the past two years with the leadership and assistance of the 6&5 Program.

Because profit sharing can help improve productivity, it has the potential to increase the resilience of companies during recessions and to enhance their success in periods of expansion, thus allowing for better basic incomes and more rewarding sharing of profits.

The stronger the economy, the greater the scope for higher profits. Canadians can take great encouragement from the fact that the economy continues to expand at a steady, sustainable pace in 1984 after the excellent gains of last year.

I said a few moments ago that my remarks could just as easily be entitled "Increasing Exports" as "Increasing Productivity". Exports, like productivity improvements, are one of the keys to good economic performance in Canada.

We in Canada depend on exports for about 30 cents of every dollar of income. To succeed, Canada must be competitive with the best from around the world, not just in price but in the quality of our products and our ability to deliver on schedule. Of course, productivity is central to those challenges.

While the challenge is great, the news about Canada's export performance since the recovery is extremely positive. Over the past year Canada posted the largest export growth of any industrial country. We chalked up a trade surplus of more than $18 billion last year, close to an all-time record. Figures released just last week show that Canada's exports at $8.9 billion and its trade surplus at almost $2.1 billion hit an all-time high in January of this year.

In support of our strong export performance are some encouraging changes in Canada's competitive position. Most importantly, we recorded a significant improvement in productivity, up by a full 2.5 per cent in 1983 -- the best gain since 1976. Since this increase follows several years of poor productivity performance, it is vital that we continue to improve our performance in the years ahead.

The cost of labour measured against the volume of production fell to a rate of increase of only 0.4 per cent in the fourth quarter of last year over the last quarter of 1982. By comparison, these same unit labour costs were up 2.5 per cent in the United States over the same period. Since the U.S. is our single largest customer, the relative improvement in our performance is very good news indeed. In just one year, Canada's rate of increase for unit labour costs went from 3.5 percentage points higher to 2.1 percentage points lower than that in the U.S. Here again, Canada must continue to do well in order to make up for a relatively poor performance in recent years.

The latest available figures show that Canada's rate of inflation, as measured by the GNP deflator, reached 3.8 per cent in the fourth quarter of 1983, compared with 4.2 in the United States. That is the first time since the fourth quarter of 1979 that our rate has fallen below that of the United States.

To make our way successfully in the kind of tough economic world in which we live, we Canadians must continue to build competitive strength through better productivity and cost performance. We have the momentum going right now. It's there for all of us to back it up and build on.

I mentioned that my speech could also be titled, "Increasing Employment". Since the recovery began, 424,000 jobs have been created in Canada, including 54,000 last month. Improved productivity is essential to the continued growth of employment for Canadians. If we can't compete in the domestic and world market, we won't achieve the kind of economic growth needed to support existing jobs and create new jobs.

To stay competitive, Canadian companies and their employees will have to redouble their efforts to produce the kind of goods and services that can hold their own in the domestic market and in other markets. The rewards will be great for those who succeed, and that success will depend a great deal on building a positive, productive environment in the workplace.

It is clear that gain sharing is just one of many approaches to the challenge of building this better environment. Nevertheless, I attach a special priority to vehicles such as profit-sharing plans which can increase the average Canadian's understanding of, and sense of participation in, the creation of economic benefits. I have talked a great deal about the need for that kind of involvement to be expressed through a great national partnership of labour, business and government. To be truly national, and truly effective, that partnership should be just as strongly in evidence on the shop floor.

This issue can be seen as one of investment -- just how much we as a nation are willing to invest in our own economic future. I am speaking of investment in the broad sense -- because we must invest not only money but our very best efforts in order to succeed.

Canadians have a reputation of being cautious about taking a direct stake in the success or failure of economic enterprises with a significant measure of risk. Without the slightest partisan purpose, I would say that Canadians tend

to invest conservatively while a more liberal approach is needed. I have noted on other occasions that this reputation is improving, but obviously we still have a long way to go. Recently, the president of the Toronto Stock Exchange, J. Pearce Bunting, commented on a survey showing that Canadians invest in publicly listed stocks at only half the rate that Americans do. One of the reasons often given by those surveyed was the feeling that they lacked the knowledge to invest successfully. And that is a symptom of a society and an economy failing to make the most of both human and financial resources.

I believe that people with a more direct, personal understanding of their stake in the success of their company through profit sharing will also be better prepared to participate as investors in the growth of the economy as a whole. We've been called a nation of savers. Let's take the next step and become a nation of investors.

Some might argue that since the savings of individuals are ultimately invested on their behalf by financial institutions, it doesn't really matter if we have a shortage of individual investors. I have never subscribed to that view. As Mr. Bunting pointed out: "Individual investors are not as likely to operate on a herd instinct as institutional investors." Individual investors, he suggested, are more likely to supply new capital to small business and to developing local enterprises where much of the new growth is to be found in our economy.

We in Canada have much to gain by assisting the vital small business sector to expand. Small business has been leading the way in the creation of jobs and in the development and application of flexible and innovative new approaches to fast-changing economic opportunities. The dynamism of the small business sector must be nurtured.

I am pleased to see that our gain sharing measures have been recognized and welcomed as particularly useful to the small business sector. In addition, my budget introduced major proposals to reduce small business tax legislation by two thirds. Fundamental pension reforms will enable Canadians who start new small businesses and expand existing ones to share fully in tax assistance for pensions on the same basis as large corporations.

One way or another, Canadians are going to have a direct and personal stake in the success or failure of Canadian business and the Canadian economy in the years ahead. Gain sharing is founded on the principle that a greater measure of involvement and co-operation can help achieve the success that all of us desire.

The future standard of living in Canada depends in a broad way on our economic success and in a very specific way on our success in improving productivity. We are talking not just about the economic welfare of those Canadians who, for example, join profit sharing plans or invest in equities, but about all Canadians, in and out of the labour force.

It is precisely because so much is at stake that I feel some impatience with those who take a narrow, inflexible or outdated view of the relationship among the major partners in the Canadian economy, and particularly between labour and business.

There has been some concern expressed, for example, about the labour-management committees required under the terms of the Employee Profit Participation Plan. As you know, the plan has not been designed to be a strait jacket -- in fact, considerable flexibility is permitted. But certain basic conditions must be met, and the gain sharing committees are one of these.

On the one hand, some in the labour movement are concerned that the collective bargaining process will somehow be undermined by these committees. On the contrary, our proposal is intended to be compatible with the collective bargaining process. The terms of reference of committees provide for appropriate labour representation and are very specific to the operations of profit sharing plans. This approach also emphasizes the principle that profit sharing is best supported as a separate incentive rather than as a substitute for wages or, indeed, as a substitute for any other benefits negotiated through collective bargaining.

On the other hand, I am aware of opposition among some employers to the establishment of gain sharing committees and specifically to the requirement for joint verification of profits as defined for purposes of the plan.

In the first place, I would point out that the plan provides considerable flexibility for the means of verifying profits. For example, this might be done by deciding upon mutually acceptable auditors. This is up to the gain sharing committee to decide. There would be no full-scale financial disclosure forced on anyone.

What should be emphasized, however, is the absolutely vital need for workers to have full confidence, full trust, in the operation of the formula under which profits and profit shares are calculated.

It escapes me how a successful profit sharing plan could be operated on any other basis than full labour-management co-operation and willing disclosure of the relevant profit information. It especially escapes me how we could ever hope to encourage more responsiveness to economic reality in this country if not on the basis of good information that documents that reality. Surely a company that hopes to build and maintain real success will make a practice of keeping its employees in the financial picture whether there is a profit sharing plan or not.

I have often heard business people complain that profits are not well understood by the general public. I can't imagine a better place to start than by explaining them to the workers.

Canada has had one of the worst records for strikes and lockouts in the industrial world -- for example, a record twice as bad as that of the United States and 10 times worse than Japan's during the past decade. I believe that gain sharing has the potential to help reduce the strains that contribute to labour-management discord. The mutual knowledge and understanding that employers and employees can develop through gain sharing will help make each side less likely to consider that shutting down a company is a useful tactic in collective bargaining.

Those employers who consistently sell short the capacity of workers to share fully and with loyalty in the challenge of building a business are almost certain to see their negative views confirmed. But those who give that capacity its full opportunity to grow and contribute to the success of both workers and companies will be rewarded accordingly.

It is not so much a question of opening the books to workers as opening doors to a new era of economic co-operation in Canada.

As minister of finance, I have placed a great deal of emphasis on the partnership approach to Canada's economic challenges. This has found expression in the new Canadian Labour Market and Productivity Centre which will combine the efforts of labour, business and government in areas vital to economic progress.

Partnership is of course the very essence of the Employee Profit Participation Plan in my budget.

The partnership approach is fundamental to the expanded and continuing consultations that I have undertaken as Minister of Finance, before and after federal budgets are designed and introduced.

We are now in the midst of a very active period of consultations designed to bring budget measures to the legislative stage as quickly as possible. We want to ensure that the Employee Profit Participation Plan is an effective, realistic vehicle which both workers and managers can use to build economic strength in the years ahead. Your continuing help in this regard is essential. You can help ensure that our plan is well-designed, and you can continue to promote profit-sharing generally across Canada.

In so doing, the Profit Sharing Council of Canada is in the forefront of the kind of constructive change that can help keep Canadian business productive and competitive. Your activities underline the point that while government can help provide an environment for economic success, it is ultimately up to all Canadians -- workers and managers, labour and business -- to get the job done and keep on doing it. It has never been more evident that our success depends on working together for shared interests in a responsible and enlightened manner.

I am greatly encouraged by the prospects for strong and sustained economic growth in this country in the years ahead. Canada has an enviable combination of material and human resources on which to build its economic future. I believe the greatest human resource of all would be a constantly growing ability to work together in partnership for a better Canada.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

EMBARGOED

Release at 2000 hours EST

Ottawa, March 28, 1984

84-39

Notes for an address
by the Honourable Marc Lalonde
Minister of Finance
to the Chambre de commerce de l'Outaouais
Hull, Quebec

March 28, 1984

CHALLENGES AND ACHIEVEMENTS: CANADA'S ECONOMIC RECORD SINCE 1968

CHECK AGAINST DELIVERY

Ottawa, Canada K1A 0G5
613 992-1573

I welcome the opportunity to address the Chambre de commerce de l'Outaouais. I always feel a sense of pride to be, at one and the same time, in my home province of Quebec and in the National Capital Region. You have a unique vantage point on the interesting times in which Quebecers and all Canadians are living.

As I considered possible subjects for my remarks on this occasion, I found myself drawn to the importance of maintaining a sound perspective on economic matters. I know that I don't have to remind business people of the need in this regard. As someone once remarked about the risks of business life, those who lose their perspective stand a good chance of losing their shirts. Of course, this applies in cases where the prospects for success are seriously over-estimated and the risks ignored.

Throughout the recession and well into the recovery, Canadians were in little danger of ignoring risks or over-estimating their economic prospects. Indeed, the challenge was to maintain a realistic outlook that gave sufficient weight to Canada's enduring economic achievements and the bright prospects for continued long-term progress.

As those of you in the retail business are well aware, there is a large psychological component in economic life. If consumers aren't in a mood to buy, for example, it is very difficult to make a sale. In that regard, I am encouraged by the recent news that retail sales in January were up almost 11 per cent in Canada and more than 14 per cent in this province over a year earlier. That's a good sign that consumers are maintaining a positive perspective and the economy is continuing on a sound course of steady growth.

By the end of last year, Canada had recovered virtually the entire loss in output from the recession and inflation had fallen to the lowest level in a decade. We are now well positioned for sustained economic expansion.

At the same time we are entering a new political era -- an era signalled by Prime Minister Trudeau's decision to retire. This announcement was the occasion for a great deal of reflection in the media on Mr. Trudeau's time in office. I read it all with great interest and, at times, considerable sadness at the casual manner in which the economic performance of those years has been dismissed by some commentators. Tonight I want to provide some perspective on those years as well as look ahead at Canada's economic prospects.

This should be both a time for reflection and a forward-looking time for Canadians, a time for personal and collective renewal -- a time when Canadians should be filled with a sense of optimism, excitement and confidence in the future. But we cannot ignore the remnants of the doubt that was so widespread just one year ago. We cannot leave unchallenged those who dismiss Canada's economic future as easily as they downgrade the past.

On the eve of a new beginning, we must not allow fear and cynicism to rob us of opportunity, to frustrate the promise for the future which the present holds. We will not move ahead if we suspend confidence in the nation and a belief in ourselves. Accordingly, I want to take this opportunity to dispel the fears and to respond to those who deal in doubt as their stock and trade.

Much of this doubt is unmistakably the legacy of the recent past. The year 1982 was traumatic for industrialized and developing nations alike. It was a year of falling output and rising unemployment. In both human and economic terms, the costs of recession were undeniably severe. But, it was also a year of major progress in the form of a sharp break in inflationary momentum -- a change in direction not only for the rate of inflation but for the entire economy.

Since the mid 1970s inflation had been the principal impediment to sustained growth throughout the world. Economic policies became increasingly constrained by the need to reverse the self-feeding pressures reflected in the unceasing rise in prices and costs. As these pressures gathered momentum, their resistance to responsible monetary discipline could only serve as a brake on real economic growth.

In 1982 the momentum of inflation was finally reversed. Inflationary expectations subsided and, as a result, wage and price increases continued to moderate throughout 1983 -- to rates one-half the level of the year before. As inflation eased, labour and management increasingly recognized that, for each of them, the positive course of future prosperity lies in efficiency gains.

I am particularly encouraged by the sharp upturn in productivity growth which has contributed significantly to the rapid pace of recovery to date. Holding inflation down will require continued vigilance. Pulling productivity up will take continued determination by all of us to make the most of Canada's human, material and financial resources. I am confident that as a nation we now have the will to hold and multiply these hard-won gains. This challenge has been faced on several fronts in my budgets of April 1983 and last month, with measures to stimulate investment in more efficient production facilities, to enhance labour management co-operation through a national productivity centre and through innovative new incentives to encourage gain-sharing between employees and employers.

I recognize the concern raised by the recent edging up of interest rates in response to pressures originating in the United States. I have emphasized that there is currently no reason to regard this change as a trend for the coming months. Likewise, it is by no means automatic that a slight rise in interest rates will result in lower economic growth. That depends on a great many factors besides interest rates. I continue to take a positive view of Canada's interest rate and economic prospects.

Most Canadians share my positive views, but there are those who continue to sow the seeds of doubt. Two years ago, they did not believe that "6 & 5" could be achieved. It was. A year ago they did not believe that a vigorous recovery would take hold. It did. Through dark glasses they continually challenge the capacity of Canadians to move ahead.

These purveyors of doubt quickly concluded that over the past 15 years, the Trudeau years, the Canadian economy has been, at best, marking time and, at worst, a failure.

In this assessment, what performance indicators do they point to? What standards of comparison do they employ? Only those that tend to confirm their own preconceptions. With blinkers on, they ignore the record and the world economic context in which that record was achieved.

When I think back over the period since 1968, a different picture emerges. There is no doubt that it was a very turbulent time for the world economy. It was a period during which the very foundations of our economic and social systems were put to the most severe test at any time since before the Second World War. It was a period during which challenges had to be confronted head on, major adjustments made, and disappointments overcome. It was a difficult period for the economies of all industrialized nations, but I believe the record shows that the Canadian economy more than held its own.

Let me provide you with a few facts:

Since 1968 growth in the Canadian economy has averaged 3.3 per cent per year -- a rate of growth higher than in the United States, Germany, Italy, and the United Kingdom and equivalent to that of France. Among the Summit countries, only Japan recorded a higher rate of growth. The average for these six larger OECD countries, taken together, was just under 3 per cent. The annual difference might appear to be small. But in the same way that interest compounds, the size of the Canadian economy increased by 64 per cent since 1968 -- or by almost 10 per cent more than the average for the other six most powerful western nations.

Today there are 3 million more Canadians employed than in 1968. And how does this increase measure up against the performance of our major trading partners? There are now 40 per cent more Canadians working than in 1968. The comparable figure for the other six Summit countries is less than 13 per cent. In other words, job creation in Canada has proceeded more than <u>three</u> times as fast.

It's time that we all recognized the truly remarkable performance of the Canadian economy in absorbing an increase in new workers, particularly women, far greater than almost anyone anticipated. In 1968, there were 2.5 million women employed and 37 per cent of working-age women were in the labour force. In 1983, 4.5 million women were employed and 52.5 per cent of working-age women were in the labour force.

Unemployment, nevertheless, also increased. With a labour force growing faster than in virtually every country in the OECD, there were 3.7 times as many Canadians unemployed in 1982 as in 1968. For the six largest OECD countries, by contrast, the labour force grew at less than half the Canadian rate; yet for this group of nations as well, unemployment in 1982 rose to a level 3.5 times as high as in 1968.

But there was one very notable difference. While only 5 per cent of those unemployed in Canada during the 1981-82 recession were out of work for more than a year, that proportion was: 8 per cent in the U.S.; 21 per cent in Germany; 33 per cent in the U.K.; and 40 per cent in France.

Once again, international experience puts Canada's performance in a different light.

As I said earlier, inflation was the major obstacle to growth throughout much of this period. Prior to the first oil shock in 1973, inflation in Canada was somewhat lower than the average for the Summit nations. Over the difficult period which followed, domestic inflation rose to an annual average of 9.4 per cent -- a rate of increase only slightly above the 9.1 per cent average for the major OECD countries taken as a whole.

Over the entire period we devoted a larger share of our Gross National Product to business investment than the other Summit countries taken as a group. Yet, as in the case of each of those countries, productivity growth in Canada fell sharply after 1973, but the decline was in line with average fall-off in productivity growth for the major OECD countries.

If these last comparisons of international statistics capture the disappointments of a decade for world economic performance, they also carry a more positive message for ourselves. In a strained international environment, Canada has certainly held its own. Indeed, we have fared better than most. And this strengthens my belief that Canadians have the capacity to meet the challenges ahead.

There is a mistaken view that living standards have fallen over the past 15 years. Nothing could be further from the truth. In the past 15 years real personal disposable income per capita -- one of the most widely used measures of the

standard of living -- increased by about 60 per cent in Canada. This is well above the increase of about 35 per cent in the United States over the same period, and well above the 44 per cent improvement recorded in Canada during the 15 years ending in 1968.

Canadians in every region shared in these real income gains. In fact, next to Albertans, residents of the poorer provinces saw their incomes grow at the highest rates.

In total, the growth in real incomes since 1968 has financed a 74 per cent increase -- above and beyond inflation -- in consumer spending as well as the construction of more than 3 million new homes.

We have come to expect continual improvements in real incomes. But I believe Canadians have also begun to appreciate the need to improve the basic economic performance on which these gains must be based if they are to endure. Therein lies the great challenge of the coming years.

Of course, there are other dimensions of personal well-being. Our standard of living extends beyond real disposable income to include tangible benefits for which our tax dollars pay. In this broader respect too, Canadians have, through admittedly difficult and uncertain times, fared well -- especially in comparison to their counterparts in other countries.

For example, Canada's unemployment insurance system provided much broader coverage than the U.S. system during the recession. During 1982, more than 80 per cent of unemployment was covered by UIC benefits in Canada, compared with less than 35 per cent in the United States.

Consider also the increasing number of Americans who discovered in 1982 that recession was indeed a double-edged sword: the loss of a job also meant that health care protection simply evaporated into thin air. Even before the onset of recession there were more than 22 million Americans without <u>any</u> health insurance coverage and many more millions covered by plans fraught with exclusions and limits.

In Canada by contrast, the sick did not suffer twice through the recession because they could not afford necessary medical treatment. Nor were Canadians reduced to poverty by debts resulting from expensive medical care.

The Canada Health Act now before Parliament will further strengthen the guarantee to all Canadians of universal access to high quality health care services on uniform terms and conditions.

The well-being of individual Canadians has been further strengthened by our sustained commitment to education and training over the past 15 years. Throughout the last decade there has been a growing appreciation that continued prosperity in the decades ahead could be assured only to a skilled and flexible labour force able to adapt to the shifting patterns of technological change. We have taken strides to provide this assurance as well. According to the most recent data available, in 1979 Canada allocated a larger proportion of Gross National Product to education than any other Summit country -- and, I would add, with major support from the federal government.

It is in no small measure through programs like Medicare, transfers for post-secondary education -- and through social expenditure for unemployment insurance, the Canada Assistance Program, old age security, the guaranteed income supplement, as well as the Canada and Quebec Pension Plans -- that all Canadians have been enabled to share meaningfully in the rise in the overall standard of living. For example, through the retirement income programs the average benefits to those over 65 have risen dramatically in the 15 years from 1968.

This has contributed to a significant reduction in the proportion of those 65 and over falling below the poverty line as defined by Statistics Canada. For example, 41 per cent of all families headed by a person 65 or older fell below the poverty line in 1969, the first year such figures were available. By 1982, less than 12 per cent of all such families were below the poverty line -- and the line had been revised upward in real terms in the interim. In the same period, the proportion of total families in Canada falling below the poverty line also dropped from almost 21 per cent to below 14 per cent, a further indication of progress in creating and sharing economic benefits during this period.

It should be self-evident that a comprehensive and generous social support system makes major demands on government spending -- and these costs tend to rise rapidly during recessions at the same time as government revenues are under the greatest pressure. It should be equally self-evident that we must deal in a firm and responsible way to reduce the resulting deficits. We are doing just that through the sustained course of fiscal responsibility set out in the budget of last April and reaffirmed in the budget of last month. It is a course entirely consistent with the maintenance and careful improvement of the social programs which have done so much to support a rising standard of life for all Canadians.

Against the kinds of genuine improvements in Canadian living standards I have been talking about, some would point excessively to the recent statistics on unemployment, and on these facts alone base a judgment of policy failure. Yes, a rise in unemployment rates has been a part of our reality. But it has been the reality for developing and industrialized nations alike. The improvements in Canadian living standards were realized in a world that was both turbulent and strained -- a world prone to inflation, a world in which cyclical downturns were frequent and severe. It was in this world that Canada competed, and I would suggest that it should be against this world that Canada's performance be assessed.

Without the obstacle of inflation, I firmly believe that growth over the next decade will be more vibrant and more stable than was the case in the recent past. As set out in my budget, for Canada this should mean greater scope for both productivity and employment growth.

Statistics aside, let's consider more tangible evidence of what I have been talking about. For example:

- the northeast coal development in British Columbia and the $625 million coal and grain terminals at Ridley Island will facilitate the shipment of those products to expanding Pacific Rim markets;

- the Crow reform will mean billions in capital investments by the railways between now and 1991;

- the Cold Lake and Wolf Lake oil sands projects and the Norman Wells oil project will begin producing in 1985;

- the $600 million co-op heavy oil upgrader in Saskatchewan will be substantially completed in 1986;

- the $870 million Nanticoke steel plant on the shores of Lake Erie was not only the largest single project ever undertaken by the steel industry in Canada, but one of the most technologically advanced and energy-efficient facilities in the world;

- the recent announcement of the establishment of a helicopter industry in central Canada will mean investments of nearly a billion dollars and $12.2 billion dollars in high technology sales -- the bulk of these export sales -- projected over the next 20 years;

- a $2.6 billion frigate acquisition program for the navy will produce many millions more in spin-off benefits, including the establishment of technologically-advanced new industrial capacity.

- a strong, export-oriented Canadian satellite industry has emerged with unequalled technological capabilities in communications, remote sensing and robotics in harsh environments -- of which the Canadarm is the best-known example.

- with planned investment offshore Nova Scotia alone already in the billions of dollars, a dramatic increase in East Coast hydrocarbon exploration and development activity is now under way. A small illustration of the local significance of this is found in the fact that in Halifax, almost overnight more than 1,400 Nova Scotians are now employed in the offshore oil and gas industry, almost overnight more than 30 supply and service companies have set up shop.

- Northern oil exploration and development also continue at a strong pace, bringing the number of wells drilled in 1983 in the north to a total of 70.

This brief list is a thumb-nail sketch of an economy that is strengthening its position in the industries and markets of the future. It is also an illustration of the federal government's commitment to a stronger and more competitive economy: Each of the developments I mentioned have benefited from the provisions of the tax system or through direct federal support. In particular, the $4.8 billion Special Recovery Program established in the April 1983 budget is providing $2.4 billion in improved investment incentives and an equal amount for direct investment in public facilities vital to future economic growth.

One final word about statistics.

Yes, the unemployment rate is high. But we are creating jobs at a strong rate and we can continue to do so.

How well we succeed will be strongly influenced by our response to a basic challenge we face. And that challenge brings me back to the question of perspective. Are we going to look to the future with doubt or with confidence? Are we going to narrowly extrapolate the worst difficulties of the last decade or are we going to see our past achievements as they really were?

In moving forward to a new era, I believe it is important to build on the accomplishments of the past and to benefit from the lessons of the past. To do that, it is important to set straight the record of the past, and to close the books on the kind of distorted, backward-looking pessimism that I have challenged here today.

To a large extent our future depends on whether we believe in ourselves as individuals and as a nation, and on how we translate that belief into action. On both accounts I am confident that Canada is well launched on a new era of fulfilling economic progress.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate Release

Ottawa, March 30, 1984
84-40

BRITISH COLUMBIA TO RECEIVE $174 MILLION PAYMENT FROM GOVERNMENT OF CANADA

The Honourable Marc Lalonde, Minister of Finance, today announced that the British Columbia government will receive a $174 million federal payment under the revenue stabilization program to compensate for a decline in provincial revenues in 1982-83.

Mr. Lalonde said the payment will be in addition to the Government of Canada's substantial cash and tax transfers to British Columbia, totalling more than $2.2 billion in the current year. "Federal government transfers represent more than one-quarter of the total spending of the B.C. government," the Minister added.

"In view of these substantial transfers, which have increased notably over time, I find it remarkable that the recent B.C. budget should claim that the federal government is underfunding provincial health care programs. In 1984-85, federal cash and tax transfers for B.C. health care will increase by more than 9 per cent to almost $1.2 billion, while spending on health by the British Columbia government is budgeted to rise only about 2 per cent. Federal support for post-secondary education will increase by 6 per cent to nearly $500 million, while the B.C. government has scheduled cuts in its grants to post-secondary institutions."

.../2

This is the first time that a payment has been made to any province under the fiscal stabilization program since it began in 1967. Mr. Lalonde said the fact that B.C. is the first to receive a payment under the program underlines the importance of federal support to that province.

An initial instalment of $80 million is being made now, and the balance of the $174 million will be paid next year when additional tax data become available.

Stabilization, which is part of the federal-provincial fiscal arrangements, is intended to provide federal support to any province which experiences an overall decrease, year-over-year, in its own revenues. The revenues covered include the major taxes levied by provinces plus any equalization payments for which a province qualifies.

For further information, contact:

D.H. Clark
Federal Provincial Relations Division
(613) 992-5826

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 1230 hours EST

Ottawa, April 2, 1984

84-41

Notes for an address
by the Honourable Marc Lalonde
Minister of Finance
to McGill University
Montreal, Quebec
April 2, 1984

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

I want to thank you for your kind invitation to come to McGill today. I always welcome the opportunity to speak with students because it is a valuable learning experience for me. Your questions and comments tell me a great deal about the issues that are of concern to you. And it is inspiring for me to be in touch with those who have a keen desire to learn.

Many of you are in the home stretch of your formal education and are preparing to enter the work force. Some of you may be fortunate enough to have a job already waiting for you when you graduate. But for many of you, the search for work lies ahead and you are concerned about whether you can find a job -- a job that will give you a solid footing in the work world, that will provide the experience that you can build a career on, that will be rewarding and satisfying, and not least of all, that will pay the bills.

You are not alone in this respect. In the economic environment of the 1980s finding work often means considerable searching. In February, 20.3 per cent of Canadian young people aged 15-19 in the labour force were looking for work. Among young adults aged 20-24, 17.4 per cent were hunting for a job.

Seeing that Canadian young people have the opportunity to work is a concern I feel deeply and personally. We who are parents of children active in the labour market know their hopes and aspirations, hopes and aspirations that are shared by many young Canadians. As Minister of Finance I have no greater priority than creating the opportunities for Canada's youth to work and to realize their potential and the potential of this country. The strength and vitality of our nation's future depend on them.

If we are to deal successfully with unemployment among our young, then we must correctly define it and understand it. I believe that if we examine the situation as it really is, then we shall find there is a continuing basis for our young people to be optimistic about their job prospects.

As you are well aware, the impact of the baby boom generation on the job market has resulted in too many people chasing after too few jobs. This situation has been complicated by major changes in Canada's occupational requirements brought on by the rapid evolution of technology and new production techniques. The skills our young people possess do not always match the skills required for the new jobs.

The recent recession has been a major factor leading to high unemployment in recent years. Between 1981 and 1983, unemployment rates rose among all groups -- men, women, and young people. The recession was world-wide in origin and consequence. No country was insulated from its effects. Therefore, to put things in perspective, we must look at Canada's economic performance, including youth employment, in relation to other industrialized countries.

A recent report on employment issued by the Organization for Economic Co-operation and Development shows that when compared to the performance of other industrialized countries in dealing with youth unemployment, Canada has been faring as well as many. Our youth unemployment rates are not much different than the OECD average and at the height of the recession in 1982 we were below the rates in such countries as France and the United Kingdom.

But I want to draw your attention to one important difference. The OECD study shows that a very small part of the youth labour force in Canada remains unemployed for any great length of time. Canada does far better than most countries on this score. In 1982, for example, one in four of our young people who were seeking work were unemployed for less than a month; more than two in four were unemployed for less than three months; more than three in four for less than six months. Indeed, only 4 per cent of unemployed young people remained unemployed for a full year. By contrast, 40 per cent of Belgium's jobless youth remained unemployed for an entire year; 30 per cent in France; 24 per cent in the Netherlands; 20 per cent in Britain; 10 per cent in Germany and over 5 per cent in the United States. These figures clearly illustrate that Canada's labour market absorbs the young better than most European countries. It's tough being unemployed at any time; but if you are, it is reassuring to know that a job might be weeks or months away rather than years.

Make no mistake, I am not saying that finding a job will be easy. I can tell you it will require determination, perseverance and flexibility. But in Canada, the odds are very good that young people who look seriously for a job will have one before very long.

Clearly, youth unemployment is a problem neither governments nor the private sector can minimize or ignore. To do so would risk damage to the nation's social fabric. But there is another danger -- that those who inadequately understand and misinterpret the problem will propose the wrong solutions and by doing so cause irreparable harm to the morale of our young people.

There has been a tendency among some people in speaking about youth unemployment to refer to the spectre of a "lost generation". They constantly refer to <u>the</u> youth unemployment crisis as if all or the majority of young persons were unable to obtain jobs.

The fact is -- and I say this emphatically -- that the vast majority of Canada's young people are finding jobs and are employed. More than four in five young Canadians between the ages of 15 and 24 who want to work, have a job. And you university students will be in the best position of all Canada's young people when it comes time to look for work. In 1983, the rate of unemployment for young people with a university degree was less than half the rate for those with no post-secondary education.

Let us recognize, therefore, that youth unemployment does not mean that all our nation's young are doomed to permanent unemployment. The problem is concentrated, by and large, among those young people with the lowest levels of education who lack skills and training. For these particular young people, there are indeed long periods without work. The concentration of unemployment among our less educated youth means that lack of employment is a serious social problem, but not one shared by all young people.

What is the government doing for those chronically unemployed young people who lack job skills? Of greatest importance, they will share in the benefits of the new National Training Act which provides over a billion dollars to give more than 275,000 Canadians, almost half of whom are young people, an opportunity

to acquire the skills that will be needed in the 1980s and 1990s. Through the program, young Canadians can train to become systems analysts, electronic technicians, marine engineers, draftspersons, tool and die makers, machinists, and other occupations which are in constant demand on the labour market.

The importance of experience in getting a job is no less true for being a virtual cliché. Getting a job in order to get experience is, however, one of the dilemmas young people face. Much more can be done, I believe, in bridging the gap between educational training and the securing of a job. It is clear that our educational institutions should be working in much closer co-operation with the business and industrial sectors in order to facilitate the bridging process for students.

One of the primary tasks of an educational institution is to prepare its students for the life before them. This means arming them with the knowledge and skills they will require to integrate successfully into working society. I do not believe that our institutions of higher learning are fulfilling this responsibility as well as they might. A fully committed effort by our universities to meet the needs of today's students demands that they work more closely with the private sector, for example, in choosing and financing research priorities. Surely the time for academic isolation is past. I believe Canadian universities would do well to forge stronger links with the private sector as part of a strategy of building a wider base of public support. Toward that goal, the Government of Canada supports the development of closer collaboration between universities and industries through a great many programs with a strong focus on science and technology.

I also call on the private sector to become much more involved with our educational and vocational institutions, particularly in assisting in the development of curricula that will train and prepare students for the kind of jobs that will be available when they graduate. I believe the business sector has a responsibility to give Canada's young a chance to gain work experience. Sure, it may mean taking a risk. But that's what business is all about and that's what social conscience is all about.

The federal government is taking the lead in implementing responsible measures to confront the persistent high level of youth unemployment. We have devoted special attention and considerable resources to federal programs to provide jobs and increase the employment prospects of young people. The Youth Opportunity Fund which I bolstered in my February budget directs $1.3 billion dollars in 1984-85 to job creation, training programs, counselling and job placement services. The main virtue of the fund is that it will provide immediate jobs, encouragement and assistance to our unemployed youth. For many young people who are discouraged about their job prospects, it will give them a new lease on life now -- a chance to develop skills, to get valuable job experience, and to exercise their initiative.

We have also taken steps to ensure that the voice of youth is heard by the Government of Canada. I refer, in particular, to the newly created Ministry of State for Youth.

The ledger clearly indicates that we are spending more on job creation now than at any time in our history. While the job creation projects we are funding are important to alleviate immediate unemployment and to respond to immediate needs, they serve a short term need. Their greatest virtue, the quick provision of jobs, is also their greatest limitation -- they cannot guarantee permanent, satisfying jobs.

It would be no benefit to the country nor to the country's youth to be permanently relegated to a "make work" generation in which many are employed in jobs well below their skills, abilities and educational qualifications. I want our young people to have challenging, lasting, meaningful jobs that spring from a growing economy that needs their energy, skills and fresh perspective. And I believe that is what young Canadians want. Short-term employment, while meeting an immediate need, is no substitute for a permanent job.

I said earlier we are directing more funding to job creation than at any time in our nation's history. Let me make it clear that if I thought that spending more would be the remedy and solution to youth unemployment, I would not hesitate to loosen the purse strings. But spending more is not necessarily spending more wisely. I am convinced we cannot spend our way back to full employment any more than we can simply wish our way to prosperity.

The most effective way of producing permanent jobs and making inroads into unemployment among our young people is to sustain economic growth and expansion. Broadly speaking, as the economy improves, everyone benefits, and it is a buoyant, vigorous economy that will generate the permanent, meaningful jobs we need. Over the past two years the government has acted to move the recovery to sustained growth and expansion and the evidence that we are on track is reassuring.

In 1983, Canada's growth was second only to the United States among the seven major industrialized nations. After moving at a sprint through the first three quarters of the year, our rate of growth assumed a more sustainable pace towards the close of 1983. Final figures for the year show that the average growth in the economy was a respectable 3 per cent. Growth is continuing at a steady pace.

Paralleling this economic growth has been exceptionally strong job creation: 424,000 new jobs have been created in Canada since the recession ended. The latest evidence verifies that employment growth is continuing: In February, 54,000 new jobs, 16,000 of them in Quebec.

Our job creation programs have obviously had a hand in these achievements. But what kind of job creation programs alone would have been as successful in creating so many jobs?

What is most encouraging in the latest figures is the broad base of Canada's employment growth. The new jobs were created in most industries and provinces and were filled by Canadians in all age groups. Youth employment increased a full 1.0 per cent in February, and I am optimistic that this heralds a period of renewed encouragement for those young people who are seeking work.

I realize that many people may react suspiciously to my claims of strong job creation performance and ask how is it that unemployment is not moving down more quickly. The paradox of a strong job creation record and a slowly falling jobless rate has its explanation in the rapidly increasing number of Canadians entering the labour force and looking for work. Because economic growth in Canada has been strong in the past year, job prospects have been improving,

and a growing number of Canadians have begun looking for a job. If our labour force were not growing so rapidly, our unemployment rate would be falling more sharply. As it is, however, while Canada is among the world's leaders in creating new jobs, no other country has experienced such strong and continuing increases in its labour force. In 1983, for example, the rate of increase in the number of people seeking work was considerably more rapid than in the United States. Despite this, Canada's unemployment rate has dropped to 11.3 per cent from 12.8 at the end of the recession.

Looking ahead I believe we can be firmly confident that the economy will continue to grow surely and steadily, creating new jobs in the process and gradually cutting down the unemployment rate. My own forecast for 1984 is that economic growth will be a robust 4.9 per cent. This is a realistic projection, one that is widely shared by independent forecasters. For example, the OECD economic outlook for 1984 projected growth in Canada's gross national product at 5 per cent, on a par with that of the United States as best among the major industrial nations. A survey of more than 20 leading forecasters by the Toronto Star predicted an average growth rate of 4.6 per cent.

Most recently, a Conference Board survey of 16 Canadian forecasters reinforced the earlier optimistic outlook for Canada's economic growth. The Conference Board asserts that strong consumer spending, a turnaround in business investment and healthy exports should produce sustained economic growth in Canada this year and in 1985.

In my February budget I indicated that in 1984, Canada will move, in terms of economic growth and employment, from the period of recovery to a period of expansion. Having recovered lost growth and jobs, Canadians will begin to make significant new gains. Continued strong employment growth will increase the total personal income of Canadians. Consumer spending will increase, an improved housing market will continue, business investment will rise, and together with government capital expenditures, including the Special Recovery Capital projects, these will all help to build an environment in which jobs will be created, many of them for young Canadians. In the five-year period between 1984 and 1988, I expect 1.6 million jobs will be created by our expanding economy.

I recognize the concern raised by the recent edging up of interest rates in response to pressures originating in the United States. I have emphasized that there is currently no reason to regard this change as a trend for the coming months. Likewise, it is by no means automatic that a slight rise in interest rates will result in lower economic growth. That depends on a great many factors besides interest rates. I continue to take a positive view of Canada's interest rate and economic prospects.

The federal government is determined that Quebec's economic recovery should move strongly forward with the recovery in the rest of the Canadian economy. We have implemented a number of measures, both short-term and structural, to strengthen and diversify Quebec's economic base. The priorities we have set range across a number of key areas, from human resource development to research, development and innovation.

In this latter regard, you will be interested to know that the sod was turned last month on one of the Special Recovery Capital Projects right here in Montreal. Construction has begun on a new Biotechnology Research Institute on Royalmount Avenue. The importance of biotechnology in the coming decades is far-reaching and the project is a good example of the forward-looking nature of the Special Recovery Projects. They are not just "make-work" schemes. They are integral to our efforts to develop a stronger economic future for Quebec and Canada.

I would like to think that this stronger economic future is one that all young Quebecers will share in fully. If Quebec is to realize its enormous potential, then we will need all young Quebecers to participate fully in the economic life of the province. I am pleased to see we have progressed a long way in that direction in recent years. A good indication of this comes from a recent Economic Council of Canada study of 1981 Census data which shows that traditional wage differences between French-speaking and English-speaking Canadians have virtually disappeared. In fact on average, francophones had an edge in hourly wages of about 2 per cent in 1980. Only ten years earlier, in 1970, francophones were earning on average 11 per cent less than anglophones. This is encouraging evidence that francophones have attained the same economic advantages and opportunities as their anglophone compatriots. This

development reflects, among other things, the benefits of an educational system that prepares young people for a full role in the new kind of economy now emerging in Quebec and all across Canada.

If stronger economic prospects are allowed to materialize here in Quebec, the exodus of young Quebecers in search of adequate employment that has marked recent years will, I hope, come to an end. In 1981-82, Quebec suffered a net loss of more than 6,000 of her young people between the ages of 18 and 24. In 1982-83, the loss was above 5,400. Many among this brain drain have been the most eager and dynamic of Quebec's sons and daughters. The erosion of the economic base in this province has left them inadequate room to exercise their talents. The strength of any community -- its language and its culture -- is dependent upon a strong economic base. A dynamic culture can't renew itself without dynamic young people remaining in the province to work.

At the outset, I said there is a continuing basis for young people in Canada to be optimistic about their prospects. I say this for a number of reasons. After crossing and recrossing this country, many times, I can't believe a nation as varied, as beautiful, as rich in resources and potential as ours has anything less than a great destiny in store. After passing through the worst recession since the 1930s, Canada has again moved into gear and is driving ahead. We have seen difficult times; challenging times there will always be. But some of the greatest Canadian enterprises began with young people who made plans in the midst of difficult times and in the face of great challenges.

You young people have come through adverse times and have still retained your vitality and enthusiasm. From here on things will be looking up. In my budget I projected that almost 1.6 million jobs will be created over the next five years. These jobs promise a new generation of opportunities for Canada's youth. It is up to you to seize those opportunities, to make the most of them, and to lay a strong foundation for those that follow you.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 2000 hours EST

CA1
FN

Ottawa, April 5, 1984

84-45

Notes for an address
by the Honourable Roy MacLaren
Minister of State for Finance
to the Ottawa Cash Management Association
Ottawa, Ontario
April 5, 1984

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

I welcome this opportunity to speak with you this evening. I want to say something about the progress the economy is making. In particular, I want to comment on the concern expressed in some quarters about recent developments in the exchange rate and interest rates.

The economy is a serious topic, not one that usually generates much humour, and so let me at least begin with a brief story in a lighter vein. It involves a "Peanuts" cartoon in which Lucy is trying to explain the meaning of life to Charlie Brown.

She says: "Charlie, on the great oceans are large ships that carry many passengers. On each ship there is a sundeck, and on that sundeck the passengers arrange their deck chairs. Some place them facing forwards so that they can see where they are going. Some place them facing backwards so they can see where they have been. Now, Charlie, on the great ship of life, which way will you face your deck chair, forwards or backwards?"

To which poor old Charlie Brown replies, "I can't even get mine unfolded."

One heritage of a painful recession is that today some Canadians still have trouble unfolding their perspectives, allowing themselves to get tangled up in day-to-day doubts and difficulties. Even when they do manage to unfold their perspectives, we find some of them looking backwards.

During the dark days of the recession, one could well understand a gloomy prediction or two. After all, all the wrong things like inflation and interest rates were going up and all the things that we wanted to see up -- such as housing starts, employment, profits and investor confidence -- were going down. It required an effort to be optimistic. The challenge was somehow to rise above the daily problems of the recession and nurture greater confidence, based upon our faith in Canada's vast potential and our individual resourcefulness.

Times have now improved, and in many respects dramatically. Since November 1982, sixteen months ago, Canada has emerged from recession, recovered the ground lost and is now moving steadily toward economic expansion. Yet some people have not adjusted their perspective to our improving economic outlook. There are those who persist in looking exclusively through the rear view mirror.

As cash managers, you know the importance of a balanced perspective in handling the funds under your stewardship. A forward-looking but realistic perspective allows you to judge with more confidence the risks involved in your investments as well as the potential for their success.

You also know that confidence itself is a decisive factor in our economy. Indeed confidence can be just as self-fulfilling as negativism. We can "psyche" ourselves into good performance with a small measure of positive thinking just as we can "psyche" ourselves into real difficulty if we succumb to pessimism.

I take issue, therefore, with those who choose to disregard the many encouraging signs on our road to economic expansion and, for whatever reason, embrace the role of doubting Thomases. No one would deny that there are still parts of the economy which have to be strengthened, but more Canadians should eschew that peculiarly Canadian pastime of self-doubt and take the time to count up the things that we are doing right. If we do, we shall find a sure foundation for continuing optimism about our economic prospects. Allow me to mention a few of these positive developments.

There is no more accurate gauge of consumer confidence than whether the consumer puts his money where his confidence is. Today there continues to be encouraging evidence that Canadians are converting their growing confidence into spending money. Nationally, retail sales in January were up by more than 3 per cent on a seasonally adjusted basis from December. Total retail sales in January were almost 11 per cent higher than a year earlier. Over the past 12 months the consumer's willingness to spend has increased steadily, in line with the economy's stable course of economic expansion.

The fact that strong sales of automobiles led this latest growth in retail trade says that Canadians are confident enough about their economic prospects to make major purchases that they would not have made during the recession or the early stages of the recovery. And this growing confidence is not just a matter of spending accumulated savings. Buyers now appear willing to take out loans to purchase a car, something they were reluctant to do not many months ago. The surge in consumer lending recorded by the banks recently can be accounted for in part by the flood of shiny new cars on our highways.

Employment growth since the recovery began has been exceptionally strong: 424,000 new jobs have been created since the recession ended. The latest evidence verifies that employment growth is continuing: in February, 54,000 new jobs were created.

What is most encouraging in the latest figures is the broad base of our employment growth. The new jobs were created in most industries and in most provinces and were filled by Canadians of all age groups.

The fact that unemployment levels are coming down only slowly should not obscure the outstanding progress our economy has made in creating jobs. The paradox of a slowly falling jobless rate and a strong job creation record is explained by the growing number of Canadians entering the labour force. All of you are aware of the extraordinary impact the baby boom is now having on the size of Canada's work force. And because economic growth and job prospects have been improving, the number of Canadians who have begun looking for a job has also grown. If our labour force were not growing so rapidly, our unemployment rate would, of course, fall more sharply.

The remarkable performance of the Canadian economy in absorbing the increase in new workers is especially visible in the growing number of women who have embarked on careers. In 1968, 2.5 million women were employed and about one-third of working-age women were in the labour force. In 1983, 4.5 million women were employed and more than one-half of working-age women were in the labour force.

Last week Statistics Canada announced that Canada's gross domestic production in January posted its eleventh consecutive monthly gain. In doing so, it surpassed the pre-recession peak in 1981, signalling that the recovery in production from the recession is now complete. Here too the gains were broadly based across almost all sectors of the economy. I am well aware that these data are at the vanguard of our return to economic strength, and are not matched across the board by all the economic indicators. However, we can be encouraged that they represent another steady step forward in the economy's resurgence.

Exports are one of the keys to good economic performance. The news about Canada's export performance since the recovery is of unparalleled achievement. Over the past year Canada posted the largest export growth of any industrial country. We chalked up a trade surplus of more than $18 billion last year, close to an all-time record. Figures released last month show that Canada's exports at $8.9 billion and its trade surplus at almost $2.1 billion hit an all-time high in January.

I could easily continue by focusing on the strong progress Canada has also made in such areas as corporate profits, inflation control, balance of payments, housing starts and so on. This kind of box score is encouraging, especially when contrasted against the malaise of the recession not very long ago. There are exceptions, to be sure, to the overall trend. But the direction of the trend is more important than the exceptions.

Nevertheless, there are those who persist in drawing attention to exceptions and fanning fears. Take, for example, the recent interest in the exchange rate of the Canadian for the U.S. dollar. I said at the outset that it is important that we maintain a balanced perspective in looking at our economic prospects. I decry any tendency to seize on any exception to our generally strong progress, dwell on it, and blow it out of proportion, as if we were teetering on the brink of disaster.

Let me illustrate my concern with a short anecdote. The story is told of the economist who was asked to address a group concerning the recovery. He nailed up a large piece of white paper on the wall and then made a black spot

in the middle of it. He asked a man in the front row what he saw. His prompt reply was, of course, "a black spot". In fact, everyone in the audience gave the same reply.

But the speaker pointed out that while there was indeed a little black spot, no one had bothered to mention the big sheet of white paper. Therein lies the message. The exchange rate may preoccupy our attention, as it should at this time, but it is part of a total picture that we should not lose sight of. Moderate fluctuations in the exchange rate should not dominate the much larger economic picture which is generally bright. There's a lot of "white space" if we care to look. Again it is a matter of balanced perspective.

Since March 1 the Canadian dollar has been depreciating against the U.S. dollar in an environment of fairly volatile international currency developments. To understand clearly recent events in the exchange markets, we must look at them in the broad context of our recovery and the international situation.

The value of the Canadian dollar on the world exchange market is determined by both domestic and international factors. As members of a global economy, we live in economic interdependence with other trading countries. The Canadian economy is especially sensitive to economic shifts and tremors in the United States. Indeed the recent depreciation in the Canadian dollar against the American dollar is the result of pressures originating south of the border. U.S. interest rates have risen in the past few weeks in the wake of a faster than expected U.S. recovery in the first quarter of this year coupled with a record U.S. deficit as the American government borrows heavily on the U.S. money markets. U.S. monetary authorities have recognized that their structural deficit, together with their trade deficit, has backed the American economy into a corner. Indeed Paul Volker, Chairman of the U.S. Federal Reserve System, has publicly warned that the American twin deficits "pose a clear and present danger to the sustainability of growth and the stability of markets, domestic and international." With fears that U.S. monetary officials might opt for tighter restraint and intensified uncertainty about early prospects for deficit reduction in the United States, we have seen U.S. interest rates increase. As a result, Canadian interest rates have edged up a bit and the Canadian dollar has slipped a bit.

But that is not an indictment of our dollar. If we consider all the world's currencies, including the U.S. dollar, the Canadian dollar has been remarkably stable. For example, in 1983 the Deutschmark, the French franc, and the British pound all fell substantially more against the U.S. dollar than did the Canadian dollar.

It should be clear that the decline in the Canadian dollar is not due to any weakness in the competitive position of our economy. Quite the contrary. The fundamental domestic factors which underpin the dollar have been and continue to be strong. Our competitive position has been improving steadily. Wage settlements and inflation have declined dramatically. Productivity has grown strongly. Our trade balance has remained strong. Our unit labour costs have moderated considerably compared to those in the U.S. Our surplus on merchandise trade has risen to a record level while the U.S. recorded a trade balance deficit. All these are positive developments which have sustained confidence in our dollar during the first year of our recovery. And there is every reason to think this confidence will continue.

Of course our objective has been to ensure a sustained recovery while at the same time continuing our success in combatting inflation. To achieve this objective, our preferable course would be a stable dollar and stable, if not lower, interest rates. However, the upward movement in U.S. interest rates has posed some difficult economic choices for Canada. In navigating tricky waters, we must chart our course carefully.

As we chart our course, there are those who so misread our current situation, offering misguided prescriptions for improving it, that they would run us all aground. They believe that while interest rates are rising in the United States, we should somehow be able to raise the value of the Canadian dollar while at the same time lowering Canadian interest rates. This is plainly Garden of Eden economics, if not cloud cuckooland. It discloses a naive understanding of a complex situation. It fails to appreciate the economic realities that we, as a trading nation, must come to grips with in the face of a volatile international situation.

What are these realities? On the one hand, we know that sharp downward movements in the exchange rate can be inflationary and that these inflationary impulses must be resisted.

On the other hand, sharp increases in interest rates, while neutralizing downward pressure on the exchange rate, would stunt our prospects for economic growth.

Accordingly, as Mr. Lalonde and I have repeatedly made clear in the House of Commons, we do not wish to see sharp downward movements in the Canadian dollar which could have inflationary consequences, and which in that event would ultimately produce higher interest rates as well. At the same time, neither would we wish to see a sharp rise in interest rates, particularly at this stage of our recovery.

The question is, therefore, what tack are we pursuing in response to the recent exchange rate and interest rate pressure? I would emphasize first that our course is indeed a response rather than a remedy. The exchange rate and interest rate problem we now face was not home-grown. There are no exclusively home-grown cures. What we can do, however, is minimize any ill-effects by following a prudent middle course between sharply rising interest rates and a falling dollar. That is precisely what we are doing, by maintaining a policy of moderating movements, both in the exchange rate and in interest rates.

This is the most responsible and effective course we can adopt. It is the course that will see our recovery into sustained growth. And it is the course that will ensure we keep a tight grip on hard-won gains in reducing inflation over the past two years.

Being fully aware of the pressures on interest rates emanating from the United States, we are keeping a watchful eye on developments there. But I want to allay whatever "Angst" has resulted from the almost predictable overreaction to these developments. There is presently no reason to interpret the interest rate shift as establishing a trend that will accelerate in the period ahead. Similarly,

we should not assume that a small rise in interest rates will necessarily retard our economic growth. Economic growth is the result of many factors. As we have seen, we are in good shape in this regard.

No one can deny the geographic and economic fact of life that our economic fortunes are, to a considerable extent, tied to those of our larger neighbours to the south. Nevertheless, we possess the capacity to strengthen our own position and the value of our dollar so as to resist some of the vicissitudes of the international environment. The key to doing this is by making sure we have a healthy, vigorous economy, an economy that can produce quality goods that are in demand internationally. In a nutshell, we must be more competitive. We must excel among the trading nations of the world by applying ourselves to the pursuit of all that will make us, and keep us, world class. To be successful, we must become more productive. On this count, we are making progress and are keeping pace with our trading partners. In 1983, moderating costs and stronger productivity enabled us to improve our position in world markets. Our exports grew by more than 5 per cent last year. Just this week we learned that productivity in the manufacturing sector reached a 13-year high last year.

But we've only made a beginning. Much much more will be required of us if we are to meet the challenge of an increasing number of world competitors who will soon possess the technology and know-how to make inroads into our markets.

The challenge of improving our productivity will require the kind of forward-looking perspective I spoke of earlier. Indeed the government has already taken some imaginative and innovative steps to foster a more productive economy. Let me cite just a few of these:

- In creating the Canadian Labour Market and Productivity Centre, we are marshalling the minds of labour, business and government to explore jointly areas vital to our economic progress, many of which will make Canada more productive.

- Our proposal for an Employee Profit Participation Plan set out in the February budget recognizes the close link between productivity and cooperative "teamwork" in any successful business operation. This proposal to encourage gain sharing plans in the private sector should spark a greater cooperative effort by employees and employers to improve productivity on a foundation of mutual self-interest.

- The extensive simplification of small business tax legislation initiated in the last budget will allow many small businesses to operate with a minimum of administrative burden and red tape. The measures will free valuable resources of individual time and energy for more productive tasks in running a business.

Finally, I want to mention the consultative approach I consider fundamental to making the Canadian economy productive. Since I entered politics, and as Minister of State for Finance, I have stressed at every opportunity that the future health and vitality of our economy depends on the willingness of business, labour, and government to consult together and to act as partners in meeting the challenges of the future. The basic challenge of becoming more competitive internationally cannot be met by the major players in our economy acting independently of one another or at cross-purposes. The challenges are too great for that. To meet them will require mutual understanding, common resolve and united effort. This, I suggest, is the most pressing challenge to our economic prospects.

I am encouraged by the greater willingness to consult that Canada's economic players have begun to show. For example, the expanded and continuing consultations before and after federal budgets have been a step in the right direction. Now as Canada unfolds her perspectives, let us continue to set our sights clearly in that right direction. If we do, I am convinced that nothing can prevent us from realizing a strong and dynamic economic future.

Department of Finance Canada

Ministère des Finances Canada

Release Communiqué

Immediate Release

Ottawa, April 11, 1984
84-49

CHANGES ARE PROPOSED IN FINANCIAL STANDARDS REGULATIONS FOR TRUST AND LOAN COMPANIES

The Honourable Roy MacLaren, Minister of State for Finance, announced today the government's intention to adopt amendments soon to the Financial Standards Regulations made under the Trust Companies Act and the Loan Companies Act.

The present regulations establish four tests that must be satisfied by a trust or loan company seeking the Minister's approval to borrow funds through deposits, guaranteed investment certificates, debentures or other instruments that in aggregate exceed 20 times the company's capital and surplus. The four tests relate to quality of assets, earnings, cash flow and liquidity. The amendments will change the tests relating to quality of assets and cash flow.

The existing test for quality of assets requires that a company have at least two-thirds of its assets invested in readily marketable debt instruments (primarily government bonds, bank certificates and short term promissory notes of corporations with specified earnings records), residential mortgages, and insured mortgages on commercial property.

Traditionally, trust and loan companies have invested heavily in residential mortgages and have had little difficulty in meeting the quality asset test. However, due to increased competition in the mortgage market from the banks and credit unions, the proportion of trust and loan company assets invested in residential mortgages, while still important, has declined significantly in recent years.

Leaders of the trust and loan industry have expressed concern that, as their companies turn to investments other than residential mortgages, it is becoming more difficult for them to meet the quality asset test. Mr. MacLaren said that, in response to this concern, the list of quality assets will be expanded to include commercial property mortgages which, while not insured, meet specified standards intended to ensure that they are of high quality.

The changes in the cash flow test will recognize the major shortening during recent years in the average term to maturity of the assets and liabilities of trust and loan companies. The average period for which depositors are willing to commit their funds to trust and loan companies has shortened. As a consequence, the companies have been forced to shorten the term of their assets. The proposed amendments will bring the cash flow test more into line with the realities of today's market.

Mr. MacLaren emphasized that the objective of the amendments is to reflect the changing nature of the trust and loan business while, at the same time, maintaining strong financial standards to protect the interests of the saving and investing public in cases where companies seek to operate at a borrowing ratio in excess of 20 times their capital and surplus.

For further information, contact:

R.M. Hammond
Superintendent of Insurance
(613) 996-8603

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate Release

Ottawa, April 11, 1984
84-50

LIMIT ON SCOPE OF FOREIGN BANK SUBSIDIARIES TO BE INCREASED

The Honourable Marc Lalonde, Minister of Finance, announced today the introduction of amendments to the Bank Act to increase the ceiling on the assets of foreign bank subsidiaries in Canada.

The Minister said that the Bank Act provision restricting foreign banks to a combined total of 8 per cent of the domestic assets of the Canadian banking system would be raised to 16 per cent by the proposed legislation.

Mr. Lalonde added: "I have assessed that restriction from the standpoint of the need to ensure the benefits of a healthy competitive atmosphere in the banking industry. Canada's banks have a strong branch banking structure, and Canadians have every reason to expect to benefit from a greater level of competition from foreign banks."

He noted that foreign banks were first permitted to incorporate subsidiaries in Canada under the 1980 revisions to the Bank Act, subject to the 8-per-cent restriction. The House of Commons Finance Committee reported last year that foreign banks had contributed to the development of more competitive banking practices and recommended that the asset restriction be removed.

Mr. Lalonde said that complete removal of the ceiling raises important questions of principle which should be considered in the context of a thorough review of the whole area of legislation governing financial institutions. "Raising the ceiling to 16 per cent will provide increased opportunities for foreign banks to expand and continue serving Canadian borrowers."

The Minister expressed his hope that the Bank Act amendment will receive speedy passage. He noted that the present situation prevents the entry to Canada of additional foreign banks and prevents the growth of the 58 existing foreign banks.

For further information, contact:

Allan Popoff
Capital Markets Division
(613)992-4661

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

For release at 2000 hours EST

Ottawa, April 11, 1984

84-51

Notes for an address
by the Honourable Marc Lalonde
Minister of Finance
at a dinner sponsored by
Dominion Securities Ames Ltd. - Morgan Guaranty Bank
New York
April 11, 1984

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

As you know, a new political era is soon to begin in Canada with the retirement of Prime Minister Trudeau and the selection of a new Liberal Party leader and Prime Minister, followed in due course by a general election.

The turn of a political era is always a good time for reflection and for renewing one's sense of direction for the future. This applies equally to economic as well as broadly political concerns.

Looking back, Canadians can consider a 15-year record of real growth greater than that in all OECD countries except Japan. At the same time, Canada can look forward to a future of real growth opportunities unequalled by those in most other industrial nations.

Nevertheless, it would be a misreading of the situation in Canada to say that a new economic era is about to begin. In fact, the new era is already under way, and it is moving forward with encouraging vigor.

I am referring not only to Canada's economic recovery but to a fundamental recognition in all sectors that the country must adapt to, and become more competitive in, the kind of tough, fast-changing world economy in which we now live.

This means greater emphasis on becoming more productive, more innovative, more flexible in responding to new opportunities. It means keeping our costs under firm control and developing better relations between labour and management. It means a continuing need, and greater opportunities, for new investment by Canadians and foreign investors. It means concerted long-term emphasis on reducing the public sector's need for borrowed capital and increasing the scope for expansion of the private sector where most new jobs will be created in the years ahead.

At the same time, it means greater attention to the vital and mutually rewarding economic relationship between Canada and the United States. And it means continuing efforts by each country, individually and in concert with the international community, to improve the international economic climate within which our economic progress must be achieved.

Today I want to outline the progress we are making and must continue to make in the key areas that I have noted. After that I will be pleased to respond to questions.

Canada's economic recovery continues to exhibit the strength that has made the North American recovery a world leader since the recession. From the fourth quarter of 1982 to the fourth quarter of 1983, real GNP rose 6.6 per cent in Canada in comparison to 6.2 per cent in the U.S. It has been assumed that the firm but more moderate pace of growth of the fourth quarter will continue in Canada, unlike the situation in the U.S. where a burst of growth has been indicated. Yet, our early figures for 1984 show impressive strength in a number of areas, including retail sales, manufacturers' orders, merchandise trade and, in aggregate, gross domestic product.

Recent indications of a firming pace of recovery in the rest of the industrial world are a source of welcome encouragement. For example, the U.S. Conference Board reports leading economic indexes with annual growth rates at 13 per cent in France, 11 per cent in Japan, and 9 per cent in West Germany, similar to the 12 and 10 per cent readings for the U.S. and Canada respectively.

With more than 30 million unemployed in the industrial nations, job creation continues to be a worldwide priority of some urgency. Canada is fully in accord with the need to build lasting solutions to the job challenge through encouragement of private sector expansion and the building of basic economic strength. As a nation that relies on exports for almost 30 cents of every dollar of income and a significant proportion of its jobs, Canada shares fully in the commitment to international action to solve economic problems.

Canada's job creation pace has been similar to that in the U.S., but our labour force has grown more rapidly. The result is a continuing rate of unemployment in excess of 11 per cent. Youth unemployment is a particular concern in Canada, as I know it is in the United States as well. We are projecting gradual but steady reduction in unemployment rates for all age groups as well as a continuation of fairly rapid labour force growth in the years ahead.

Despite strong evidence of continuing growth, there has been an attempt by some to paint Canada's economic growth rate as faltering in comparison to that in the U.S. In fact, the recent edging upward of interest rates in both Canada and the United States reflects the concern that economic growth now exceeds a sustainable pace in the U.S. This fear is of course closely related to concerns about the U.S. government deficit and to the risk that overly rapid growth would create both rising inflation and rising interest rates.

We seek to promote continued economic growth at a pace consistent with the control of inflation and the lowest possible interest rates. From a policy standpoint, we might say, in this Olympic year, that while it would be nice to win the 100-metre dash, the real economic challenge is to win the marathon.

<u>Canada's competitive position</u> has been improving since the recovery began, assisted greatly by a dramatic fall in the rate of inflation. For example, the rate of inflation as measured by the GNP deflator reached 3.8 per cent in the fourth quarter as compared to 4.2 in the United States. Productivity has risen substantially -- up 3 per cent in the fourth quarter compared with a year earlier. Manufacturing productivity rose almost 7 per cent -- the best performance in 13 years. Unit labour cost increases have been moderating -- to a level of only 0.4 per cent higher in the fourth quarter over a year earlier as against 2.5 per cent in the U.S.

Canada's merchandise trade surplus was at a near record $18 billion in 1983 and came in at a record annual rate of $25 billion in January of this year. Canada's overall current account continued to show strength in 1983 with a $1.6 billion surplus, the second highest on record. This also is in contrast to U.S. experience in recent times.

Clearly the recent downward drift of the Canadian dollar against the U.S. dollar is not a reflection of fundamental weakness in domestic economic performance.

The movement of the Canadian dollar does underline the extent to which Canada and the industrial nations generally rely on the United States to come to terms with its large structural deficit overhanging the capital markets. Large deficits combined with relatively low savings rates have kept real interest rates at very high levels in the United States.

Although we in Canada have some flexibility in designing monetary and interest rate policies apart from external considerations, a marked departure from basic compatibility with U.S. rates would have damaging results.

I sometimes hear it said we could have substantially lower, so-called "made in Canada" interest rate levels. This point of view tends to ignore the reality of Canada's open economy and the fact that capital flows would quickly reflect the interest rate disincentive. Some people even argue that a cheaper dollar should be promoted as a means of reducing interest rate levels. They forget that capital markets and domestic and foreign investors can be very unforgiving. Serious instability, higher inflation and higher interest rates would be the inevitable results of any such policy. The Government and the Bank of Canada will continue to follow a prudent and moderate course, including continued resistance to sharp downward movements in the exchange rate.

<u>Government deficits in Canada</u> cannot be ignored, and are not being ignored, simply because their impact is overshadowed by that of the U.S. federal deficit. Canadians have learned that they must put their economic house in order to hold their own in a tough world. This includes making sure that the public sector demand for borrowed capital does not impede the growth of the private sector as its need for capital increases.

My budgets of April 1983 and February 1984 put in place and confirmed the government's present course of steady reduction of the deficit. I have made clear, at the same time, that fiscal responsibility includes a strong measure of

social responsibility. Canadians have not cut the lifelines to those who suffered most through the recession. Furthermore, I detect no significant support in the country for those who advocate wholesale cutbacks in social programs as a means of reducing deficits.

The maintenance of social support systems combined with the severity of the recession had a pronounced impact on the federal deficit in Canada. One current reason for a more substantial increase in the deficit in Canada has been our faster-growing labour force and the resulting higher unemployment rates with their direct link to higher government expenditures. By the same token, there is good reason to believe that the medium-term structural deficit in Canada is relatively smaller than in the U.S. A higher cyclical component in Canada implies a deficit more likely to shrink with economic growth. It is also important to note that savings are currently higher in Canada than in the U.S. This is most apparent in personal savings rates -- about 11 to 12 per cent of disposable income in Canada and 5 to 6 per cent in the U.S.

There has been some misinformation on the question of how much pressure our deficits put on credit markets. For example, some opposition Members of Parliament have recently stated that the government's borrowings are greater than 90 per cent of annual private savings in Canada. The actual figure is estimated to be about 25 per cent in the current fiscal year.

A typical "rule of thumb" is that since the United States economy is roughly 10 times larger than Canada's, deficits in the two countries should reflect this proportion. As a result, the relative size of the Canadian federal government deficit has been popularly exaggerated. Deficit comparisons are difficult between the two countries because there are significant differences in accounting concepts and definitions of fiscal years. The most appropriate comparison is between the U.S. total budgetary balance, including off-budget outlays, and Canadian financial requirements. In this light, the countries in fact have quite similar deficit-to-GNP ratios.

Although keeping the deficit in perspective is important, the systematic reduction of deficits in line with the needs of the economy is even more important. And we intend to stay on course in that regard.

Business investment in Canada has been slow to recover from the recession. This is not surprising in several respects -- not the least being that investment was so strong in Canada for many years prior to the recession. The greater severity of the downturn in Canada was harder on consumer demand and on the basic health of business balance sheets. Consumer demand has led the recovery, balance sheets are improving rapidly and stronger investment will follow.

The outlook for many years ahead is one of very large and very attractive investment opportunities in Canada. We can expect to see strong business investment performance, including foreign investment. I would note that despite Canadian interest rates being low in 1983 by historical standards in relation to those in the U.S., there was a net long-term capital inflow of $2.8 billion into Canada. Such figures reflect not only the basic advantages that Canada offers as a place to invest, but also a very determined effort by Canadians to encourage and welcome new investment. For example, Canada has provided an attractive set of incentives for expanded investment in the vital area of research and development -- and these were made even more generous by my budget of April 1983.

In addition, I would note in passing that the recent approval rate of the Foreign Investment Review Agency is 97 per cent, even higher than the 92 per cent average for FIRA since its inception in 1974. Procedures have also been streamlined. Canada warmly welcomes those with a strong interest in sharing in the great investment opportunities available in our country.

The Canada-U.S. economic relationship has often been called "special" -- and quite accurately so. Lately, I have noted a number of Canadian commentators worrying that the relationship is no longer so special, particularly from the American point of view. One of the implications is that a new wave of protectionism in the U.S. will therefore have serious consequences for Canada.

I do not argue with the thesis that rising U.S. protectionism would hurt Canada. That is undeniable even in the event that Canada were substantially exempted from any new protectionist measures. The resulting damage to the international trading system would hurt Canada and the United States and all other nations.

In this context, I must say that I am encouraged by the indications that the forces of protectionism in the United States are being met with strong arguments to the contrary.

Opposition to protectionism is not a question of one side seeking special favours from the other -- indeed, I have urged Canadian businessmen to be more aggressive in seeking out markets in the U.S. It is a question of making the playing field as level as possible for each side.

As you will know, a substantial and growing majority of Canada-U.S. trade is already duty-free. Discussions have been broached on the subject of even freer trade between Canada and the United States, and these will be watched with great interest.

The issue is not really whether Canada enjoys a special economic relationship with the United States. The real question is whether common sense and common interests will continue to guide the relationship. I believe they will, to the mutual advantage of each side.

An example of the step-by-step improvement that can be pursued in this regard is the recent study of the position of foreign banks, including a strong U.S. banking contingent, in Canada. It was only with the 1980 revisions of the Bank Act that foreign banks became full members of the Canadian banking community. As you know, a parliamentary committee has recommended removing the ceiling that restricted foreign banks to 8 per cent of the total assets of the banking system.

I have been particularly interested in assessing that restriction from the standpoint of the need to ensure the benefits of a healthy competitive atmosphere in Canada's banking industry. Consequently, I have today introduced in Parliament legislation amending the Bank Act, raising the domestic asset ceiling on foreign bank subsidiaries from 8 per cent to 16 per cent. I hope that this legislation will receive speedy passage in Parliament. The new 16 per cent domestic asset ceiling will immediately remove the constraints preventing the further growth of foreign bank subsidiaries and will allow them to grow and continue to serve Canadian business.

The Government is prepared to raise the domestic asset ceiling, but at this time is not enacting the Committee's recommendation that the ceiling be removed completely. Such a change would raise important questions of principle which should be considered in the context of a thorough review of the whole area of financial institutions legislation such as typically occurs at the time of a Bank Act revision. In fact, it is foreseen that the foreign bank subsidiaries will have ample room for expansion until the next revision of the Bank Act in 1990.

Interdependence is of course the inescapable reality of the entire world economy, and no more critically so than in the case of the developing countries. Their economic success depends in large measure on our success. In the short and medium term, their very economic survival depends in many cases on the continuation and expansion of extraordinary efforts to assist in their painful adjustment problems. As I have suggested, this is not a question of charity. It is a question of protecting and reviving a crucial element of world economic growth for the longer-term future. Even the United States, the largest and most autonomous of economies, has come to rely on international trade as a major source of economic progress. Its leadership in forging a better world will provide benefits for us all.

Canada will continue to play a strong role in promoting international economic co-operation. It is in that spirit that I will be in Washington tomorrow and Friday for meetings of the International Monetary Fund and the World Bank. And it is the same goal that I will pursue next month at a Commonwealth finance ministers meeting in London, the OECD ministerial meeting in Paris and the G-10 meeting in Rome.

As I have emphasized in my domestic budget measures, leadership is more than ever a question of partnership. Business alone cannot prepare a nation's economy for the challenge ahead, just as labour and governments on their own hold only a part of the answer to a better economic performance. So it is with the world's economic challenges. Only by working together can the nations of the world, great and small, ensure the conditions in which all of us can grow and prosper.

Department of Finance Canada

Ministère des Finances Canada

Release Communiqué

Immediate Release

Ottawa, April 12, 1984
84-52

GOVERNMENT TO RAISE FUNDS IN SWISS CAPITAL MARKET

The Honourable Marc Lalonde, Minister of Finance, announced today that the Government of Canada plans to raise funds in the Swiss capital market.

Part of the proceeds from an expected borrowing of one billion Swiss francs (about U.S. $460,000,000) would be used to redeem a private placement of notes for 500 million Deutsche Marks (about U.S. $190,000,000) which matures May 10, 1984. These notes issued in 1978 have an interest rate of 5 per cent.

Proceeds from the Swiss financing will also be used to partly offset the decline in Canada's official international reserves due to the redemption of certain other issues which matured during the past year. Last month an issue in Japan of 30 billion yen (about U.S. $132,000,000), which was negotiated in 1979, matured. The interest rate on this issue was 6.4 per cent. In 1983, a total of U.S. $892 million in foreign debt matured and only one foreign issue was undertaken for U.S. $500 million in the Eurodollar market.

The proposed financing in the Swiss capital market is expected to consist of the following:

- A five-year SFr 300 million fixed term bank loan which bears an annual interest rate of 5 5/8 per cent. This loan would be provided by Credit Suisse, Swiss Bank Corporation and the Union Bank of Switzerland.

- A SFr 500 million private placement of notes. This offering would be placed through a syndicate of Swiss banks managed by Swiss Bank Corporation, the Union Bank of Switzerland and Credit Suisse. This

Canada

Ottawa, Canada K1A 0G5
613 992-1573

private placement will consist of SFr 300 million 3 year 6 month 4 7/8 per cent notes priced at 100 per cent and SFr 200 million 6 year 5 1/8 per cent notes, priced at 100 per cent.

- An eight-year SFr 200 million public offering of marketable bonds which is expected to be offered for sale in the latter part of April. The issue will be non-callable and would be underwritten by a syndicate of Swiss banks led by the Swiss Bank Corporation, Credit Suisse and the Union Bank of Switzerland.

The financing is subject to approval by the Swiss National Bank. The Minister stated that he would announce further details of these transactions in due course.

C.H. O'Hara,
Capital Markets Division
(613) 992-4467

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 1315 hours EST

Ottawa, April 16, 1984
84-[illegible]

Notes for an address
by the Honourable Marc Lalonde
Minister of Finance
to the Aerospace Industries [illegible]
Ottawa
April 16, 1984

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Let me first express my appreciation for the invitation to be with you today. Since ministers of finance are deeply concerned with the future prospects as well as the present performance of the Canadian economy, I take an especially strong interest in the aerospace sector. Yours is an industry working at the frontiers of the technological and economic future -- not to mention the frontiers of outer space.

Today I want to discuss the progress of the economic recovery and the prospects for continued growth in the months and years ahead. I want to look particularly at the need for Canadians to excel in the kinds of economic endeavors that will increasingly determine who succeeds and who fails in the demanding international marketplace. This is a subject of particular relevance to the aerospace industry, which stands in the front lines of international competition.

Canadians are witnessing the end of one political era and the beginning of another, both signalled by Prime Minister Trudeau's decision to retire. I think it is true to say also that this will be remembered as a time of profound economic change. We are seeing the accelerating emergence of what has often been called the "new economy".

This new economy has a number of important characteristics. It relies more and more on advanced technology. This can be seen in the growth of the relatively young and dynamic "hi-tech" sector. And it is partly through the application of advanced technology that traditional industries can secure a full and successful place in the new economy.

The new economy is more productive, more competitive and more innovative. Its principal resource is brainpower and the essential expression of that brainpower is through research and development.

Accordingly, a high priority must be placed on long-term investment in the people who generate, develop and apply promising new ideas and technologies. A skilled and well-educated workforce is itself a source of economic growth and development. It is this kind of workforce which can best adapt to the accelerating rate of change that is one of the chief features of the modern technological economy.

Canadians cannot allow themselves to play a largely passive role in the emergence of this new economy. It is above all a new global economy. It is developing all around us, and we must be able to compete in order to ensure economic success. Some might argue that the main economic challenge is to respond to the forces of economic change. But it might more aptly be described as the challenge of ensuring that we create constructive economic change at least as quickly in Canada as in the countries with which we trade and compete.

My remarks should not be interpreted as over-stressing the policy imperatives of the "new economy". For one thing, there is a risk that some of the challenges now on the horizon will themselves fall victim to an accelerating rate of change. One might say we have enough real problems to face without worrying too much about those that don't yet exist. In any case, it is only by meeting today's fundamental economic challenges that we can prepare for the challenges of the future. Meeting the challenges of productivity and competitiveness, of investment and innovation, is the essence of success for the economy of today and tomorrow.

The road to economic success is neither quick nor easy. There will continue to be pressure for short-cuts -- for quick fixes and blanket solutions that would only disguise the symptoms while ignoring the causes of economic weakness.

Indeed, if I were to take seriously the daily and often contradictory advice that I receive in Parliament, I would have already introduced at least two new budgets since February 15. One would have sharply reduced government spending and the deficit without, of course, impeding the economy's growth.

The other would have sharply increased government spending on measures designed to stimulate the economy, but without increasing tax rates or the deficit.

Unlike some of my critics in the political arena, I do not have the luxury of playing Snakes and Ladders with the government's economic policies. From the beginning as Minister of Finance, I committed myself to policies supporting a steady course of economic recovery and durable long-term growth. And I intend to stick to that approach.

In fact, the evidence so far, while still sketchy, indicates that Canada's economic recovery continues on a strong and steady course. From the fourth quarter of 1982 to the fourth quarter of 1983, real GNP rose 6.6 per cent -- faster in Canada than in the U.S. and all major industrial nations. Real growth is expected to continue in Canada this year at the more moderate pace of the fourth quarter. Nonetheless, our early figures for 1984 show strength in a number of areas, including manufacturers' orders and shipments, merchandise trade and, in aggregate, gross domestic product. These are welcome indications that the budget forecast of continuing substantial growth is realistic.

Late last week I attended the meetings of the International Monetary Fund and the World Bank in Washington. I can report there is cause for encouragement about the pace of economic recovery in the industrial world. I was particularly interested to note that the annual World Economic Outlook of the IMF presents Canada's expected economic performance in 1984 as significantly better than average for the major industrial nations in a number of important categories. These include increases in real GNP, real domestic demand, employment and exports. Let me say that I share the view that Canada's economic performance will continue to rate very highly among the major industrial nations.

There has been justifiable concern but totally unjustified pessimism about the difficulty we face in bringing down the rate of unemployment . The fact is that about 400,000 jobs have been created since the recession. My budgets of April 1983 and February 1984 made realistic projections of the rate at which

unemployment could be reduced in Canada. These projections took into account the fact that Canada's labour force has historically grown faster than that of any other industrial nation, and is almost certain to continue doing so.

Canada has done exceptionally well in creating employment -- more than 3 million new jobs in the past 15 years. My recent budget forecasts almost 1.6 million new jobs in the next five years. We will continue to do well by emphasizing the fundamentals of economic growth -- investment, productivity and competitiveness in the broadest sense of those terms.

Productivity improved substantially during 1983 -- up by 3 per cent from the fourth quarter of 1982 to the fourth quarter of 1983. On a yearly average basis, manufacturing productivity was ahead by almost 7 per cent. As for those who argue that Canadians can't have both good productivity performance and strong employment creation at the same time, I would suggest that the record refutes the contention. More importantly, the hard fact of increasing international competition makes it inescapable that we continue to increase productivity to protect existing jobs and create new ones.

Likewise, Canada's cost competitiveness improved during 1983 with a marked slowing in the rate of inflation. Combined with our good productivity showing, unit labour costs were only 0.4 per cent higher in the fourth quarter of 1983 over a year earlier. That compared with an increase of 2.5 per cent in the U.S.

Investment has been, as expected, slow to recover from the setbacks of the recession. Typically, investment makes its greatest contribution to recovery in the more mature phase when rising demand has restored the need for expanded productive capacity. Nonetheless, I have urged those companies in a position to invest in better production methods and better products to do so as soon as possible to take advantage of existing incentives and still slack demand for capital equipment. This especially applies to those firms which rely on export sales for a substantial part of their business.

The government has backed up this advice with measures to assist in the improvement and expansion of industrial capacity, including the $2.4 billion Special Recovery tax incentives for investment brought forward in the April budget. Our R&D incentives, already described as among the most generous in the industrial world in a Canadian Tax Foundation study, were made even more attractive in that budget. These will further help industry in the battle to develop and produce the kind of products that can find a share of domestic and foreign markets.

If Canada is to increase its share of world markets -- and that is where the growth must increasingly be found -- it will mean new investment based on outward-looking and far-sighted assessment of business opportunities. This country currently depends on exports for about 30 cents of every dollar of income. On balance, we would all be better off if we could increase that share steadily in the years ahead.

The opportunities are there. The aerospace industry exemplifies both the export potential and a great deal of success in developing that potential through products that are high in technological content and driven by export sales.

Clearly, the government has a strong role to play in assisting the private sector to grasp such opportunities. For some strategic sectors of the economy, such as the aerospace industry, that means very active and broad-based support, going back many years and continuing in the future.

Since March 1971, for example, the Government has invested $825 million in the Canadian industry through the Defence Industry Productivity Program and $370 million in just the last three years through the Space Program. A very high proportion of this has been for research and development in the aerospace sector.

The government has had a consistent strategy for Canada's aerospace industry. Fundamentally, manufacturers must produce specialized, high quality products suited to niches in export markets. I would add here that if there is a failure in Canadian business generally, it is a tendency to think that high-quality Canadian goods and services will sell themselves. As you know from experience, aggressive marketing is an essential part of the export equation.

Under our strategy, product lines are determined by market forces and successful firms must maintain international competitiveness. To make this strategy work, the government provides:

- special access to international markets through development and production sharing arrangements with the United States and other allies;

- offset arrangements and trade agreements associated with major purchases by the government of Canada; and

- sponsorship of international industrial partnerships to expand market opportunities for Canadian companies.

The success of this strategy speaks for itself in the industry's record of growth in sales and high-wage employment; in the emergence of strong firms like Pratt and Whitney Canada, whose engines satisfy almost 60 per cent of the world market for Turboprop aircraft; in the technological superiority of many Canadian aerospace products, from STOL aircraft to utility amphibians and business jets, from flight simulators to unmanned airborne surveillance and sophisticated navigation systems, from communications satellites to the Canadian remote manipulator system -- the celebrated Canadarm.

Changes in the international environment however, have brought new challenges to Canada's industry in recent years. The world recession severely weakened demand for many aerospace products. Costs and risks associated with new technology have spiralled. International competition is intensifying. It is in the context of this changing environment that the government has faced making decisions to shape the industry's development over the next 20 years. The

government has been successful in working with the aerospace industry in making these decisions. As some of you know from participating in its work, the report of the Advisory Committee on Aerospace Development has played a significant role in the response to these new challenges.

One new approach attempted by the government in recent months with the aerospace industry is the long-term, joint agreement with Pratt and Whitney Canada to fund 12 new research, development and productivity improvement programs over the next 10 years. This support will bring about a doubling of the company's current level of research and development activity.

The objective of such agreements is to create an environment of stability, to enable selected companies to plan over the long term with a high degree of confidence. This unique approach has been advocated by many in the business community whose future is determined by substantial investments in research and development. This approach is also fully consistent with the report of the Advisory Committee on Aerospace Development which recommended that government support for research and development should be based on sector plans of five or more years rather than year by year allocations.

This agreement together with the recent Bell Helicopter initiative should demonstrate and further reinforce the federal government's commitment to working with the aerospace industry to help it achieve its goals of viability and world competitiveness. The Bell project, including the Pratt and Whitney engine development project, is estimated to create more than 3,800 new high-tech jobs and generate sales valued at $9.9 billion over the next 20 years -- 85 per cent of them from exports.

Another promising new venture demonstrating the benefits of active government participation is the joint enterprise between Messerschmidt-Bolkow-Blohm of West Germany and Fleet Industries Ltd. of Fort Erie, Ontario to manufacture a new generation of twin-turbine helicopters. The 20-year sales projections are $1.3 billion.

I would note also that the recent financial restructuring of Canadair Limited has put that company in a position to move forward as a well-diversified high-technology company that can hold its own in export markets. This will also guarantee the continuation of Canadair's effective R&D capability which over the years has produced tangible benefits for Canada. For example, innovative approaches were demonstrated in the design and development of the Challenger, of surveillance systems and other products.

The government has likewise maintained its commitment to de Havilland Aircraft of Canada Ltd. in support of some basic industrial goals. These include a Canadian presence in the small commuter aircraft sector of the industry, the retention of design and engineering capability in this country and the maintenance of the technology base in the aerospace sector.

I spoke earlier about the dangers of a zig-zag approach to government policy. This applies equally to general fiscal and economic policies and those directed to specific industries. Abrupt shifts in direction are disruptive in the short term and cause damage to confidence. And they can do much worse than that. Nothing better illustrates this than the shortsighted decision to cancel the Avro Arrow contract 25 years ago. The costs were enormous, including the loss of an entire generation of talented and dedicated aerospace engineers and scientists.

We must remember that technologically-advanced industries do not progress in isolation from each other. For example, your success in export markets can create major spinoff benefits for the products of other Canadian export industries in the advanced technology field. The high-profile achievements of the Canadarm -- demonstrated so spectacularly again last week -- are good not only for Spar Aerospace, they are good for every Canadian high-technology company out there fighting for recognition and market share.

The battle for recognition and support is of course waged right here in Canada as well. You need a high degree of continuing support from both public and private sector in the form of investment capital which, by definition, will carry

significant risks. Tax incentives can help to encourage private investors to take those risks, but ultimately you must win that support on your merits as innovators and exporters.

Historically, Canadians have not been known for favoring a lot of risk-taking investment, whether it be in basic natural resource development or more sophisticated technological enterprises. That reputation has improved and it continues to change for the better. This reflects the success of industries such as yours in translating opportunities into real success.

There is also a growing recognition that the risks of standing pat with the past are far greater than those of putting our money on the line for the economic future. I believe we have just begun to see the benefits of this more creative, forward-looking approach to investment.

The aerospace industry has helped to lead the way toward the "new economy" of which I have spoken. I wish you well, and I reaffirm my support, in your continuing efforts to meet the test of international success in the challenging years to come.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Immediate Release

Ottawa, April 25, 1984
84-60

FEBRUARY BUDGET DRAFT LEGISLATION RELEASED

The Honourable Marc Lalonde, Minister of Finance, today made public draft legislation relating to income tax proposals announced in the February 15, 1984 budget.

The draft legislation follows the Notice of Ways and Means Motion tabled in the House of Commons with the budget and sets out the tax changes necessary to implement the small business simplification measures.

"I believe these proposals, which eliminate two-thirds of the tax law relating to small business, will free the entrepreneur from the administrative burden of unnecessary complexity and red tape," Mr. Lalonde said.

The Minister drew particular attention to one change which results from the consultations he has held with small business groups.

"In response to submissions received during the post-budget period, I have decided to modify the proposal that would have allowed an award of up to $1,000 of costs to a taxpayer in respect of appeals to the Tax Court of Canada," Mr. Lalonde said. "Under the draft legislation, the $1,000 limit is removed so that the award of costs will be at the discretion of the Court itself."

The draft legislation also includes certain technical changes to the Income Tax Act related to Bill C-2, which was enacted in January of this year.

Ottawa, Canada K1A 0G5
613 992-1573

The more important of these changes relate to the share-purchase tax credit and scientific research tax credit provisions. In addition, the rules governing the distribution of assets of a corporation to its shareholders in the course of certain corporate reorganizations, generally referred to as "butterfly" transactions, are to be modified to expand the scope for such reorganizations.

To provide as much detail as possible concerning the proposals, comprehensive technical notes accompany the draft legislation.

Mr. Lalonde stressed the importance of draft legislation and technical explanations as part of a more open consultative process in which public input is sought before implementing legislation is introduced in the House.

"Although a number of the measures have already benefited from extensive public consultation, most notably the small business simplification measures and the measures applicable to charities, there still is time for further public input before the final legislation is prepared," Mr. Lalonde said. "Comment from interested parties is essential."

In order that comments may receive adequate consideration and in the interest of an early tabling of a bill incorporating the measures, comments should be submitted by the end of May. They should be addressed to the Tax Policy and Legislation Branch, Department of Finance, 160 Elgin Street, Ottawa, Ontario, K1A 0G5.

For further information, contact:

T.C. Morris
Tax Policy and Legislation Branch
(613) 995-3586

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Immediate release

Ottawa, April 26, 1984
84-61

The Honourable Marc Lalonde, Minister of Finance, announced the signing today in Zurich of agreements for a three-part financing package amounting to one billion Swiss francs (about U.S. $460 million).

Preliminary details of the financing were announced April 12, 1984.

Final terms of the three separate loans are as follows:

- An eight-year SFr 200 million public offering of 5 1/4 per cent marketable bonds priced at 100 per cent. This issue, currently being offered to investors, is being underwritten by a syndicate of Swiss banks led by the Swiss Bank Corporation, Credit Suisse, and the Union Bank of Switzerland.

- A five-year SFr 300 million fixed term bank loan which bears an annual interest rate of 5 5/8 per cent. This loan is being provided by Credit Suisse, Swiss Bank Corporation and the Union Bank of Switzerland.

- A SFr 500 million private placement of notes. This offering is being placed through a syndicate of Swiss banks managed by Swiss Bank Corporation, the Union Bank of Switzerland and Credit Suisse. This private

Publication immédiate

Ottawa, le 26 avril 1983
84-61

L'honorable Marc Lalonde, ministre des Finances, a aujourd'hui annoncé la signature à Zurich d'accords de financement en trois volets totalisant un milliard de Francs suisses (soit environ $460 millions É.-U.).

Les détails préliminaires de cet emprunt ont été annoncés le 12 avril 1984.

Les modalités définitives des trois emprunts individuels sont comme suit:

- Une offre publique de 200 millions F.S. d'obligations négociables 5 1/4 pour cent à 8 ans au prix de 100 pour cent. Cette émission, qui est présentement offerte aux investisseurs, est souscrite par un consortium de banques suisses dirigé par la Société de Banque Suisse, le Crédit Suisse et l'Union de Banques Suisses.

- Un emprunt bancaire à échéance fixe de 300 millions F.S. à cinq ans portant intérêt annuel à 5 5/8 pour cent. L'emprunt est consenti par le Crédit Suisse, la Société de Banque Suisse et l'Union de Banques Suisses.

- Un placement privé de billets de 500 millions F.S. Cette offre est placée par l'entremise d'un consortium de banques suisses sous la direction de la Société de Banque Suisse, l'Union de Banques Suisses et le Crédit

.../2

placement consists of SFr 300 million 3 year 6 month 4 7/8 per cent notes priced at 100 per cent and SFr 200 million 6 year 5 1/8 per cent notes, priced at 100 per cent.

The Government of Canada will receive the proceeds from the bank loan and the private placement on May 3 and May 15 respectively, while the proceeds from the public issue will be received on May 10, 1984.

For further information:

R.G. Miller,
Capital Markets Division
(613) 992-4467

Suisse. Ce placement privé consiste en 300 millions F.S. de billets 4 7/8 pour cent à 3 ans et 6 mois au prix de 100 pour cent, et en 200 millions F.S. de billets 5 1/8 pour cent à 6 ans au prix de 100 pour cent.

Le Gouvernement du Canada recevra le produit de l'emprunt bancaire et du placement privé les 3 et 15 mai respectivement, et le produit de l'émission publique le 10 mai 1984.

Pour plus amples renseignements:

R.G. Miller,
Division des Marchés de capitaux
(613) 992-4467

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 1315 EDT

Ottawa, April 29, 1984

84-62

Notes for an address
by the Honourable Marc Lalonde
Minister of Finance
to the Paul Harris Foundation Luncheon
Toronto, Ontario
April 29, 1984

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

It is a pleasure for me to be here with Rotarians from District 707 on the occasion of your annual conference. I am particularly proud to address this Paul Harris Foundation Luncheon. It is almost thirty years since I had the privilege of studying abroad at Oxford as a Foundation student, yet the Rotary-inspired ideals of international understanding and service are ones I have carried with me into public life and which I continue to value deeply.

The very existence of Rotary and its long and distinguished record of service and fellowship around the world is a remarkable affirmation of faith in people and their ability to serve and improve the communities in which they live. As people committed to service, you know that you can't improve the world by withdrawing from it into a cocoon of cynicism. The significant contribution you have made has been because you have had enough faith in yourselves and enough determination to say "Let's work together to move ahead and accomplish something worthwhile".

This is a message I have voiced over and over again since I became Minister of Finance. The economy is not like a piece of clockwork, simply ticking away on its own, regardless of what we do. The economy is much more like a living organism which we can influence by our decisions and actions. I am encouraged that as a nation we have indeed worked our way out of the recession and onto a path of recovery and economic growth. Canada has made tremendous progress because Canadians have pulled together.

For a few moments I would like to focus on some of the developments in our economy's progress toward growth and expansion and to examine some of the key challenges we face as a nation.

As Canada's manufacturing heartland, Ontario has a special interest in the nation's economic recovery as it is reflected in the manufacturing sector. About half of Canada's manufacturing shipments roll from Ontario factories and businesses, and therefore the health of the nation's manufacturing sector is determined to a great extent right here.

Since the recession ended in late 1982, the manufacturing sector has shouldered its share in helping the economy back toward full vitality. Over the past year, the manufacturing sector has posted a significant recovery in terms of both new orders for manufactured products and in shipments of products. In 1983 the value of manufacturing shipments in Ontario rose by 10.6 per cent, which was better than the national average. By last February, the value of shipments in Ontario was 27 per cent higher than a year earlier and continued to outpace the rest of the nation.

Manufacturing is sustained only if people want to buy, and retail business over the past year has borne out the growing demand for manufactured goods. The value of retail sales climbed in Ontario by almost 10 per cent in 1983. Sales for the month of February rose slightly and were 16.5 per cent higher than a year earlier, a jump that any business would be pleased with.

Leading the way has been the transportation equipment industry, and in particular, motor vehicle sales. I know that down the road in Oakville and in Oshawa, or a little farther in Windsor, there are a lot of smiling faces these days, both on the assembly lines and in the board rooms. Motor vehicle sales in Ontario in 1983 were up by about 22 per cent from a year earlier. The monthly record in 1984 has been just as encouraging. Indeed the automobile manufacturers themselves report a continuing boom in sales. Combined car sales in the first quarter were 40 per cent higher than in the first quarter of 1983. Ford car sales in March were up 36 per cent from a year earlier; General Motors were up 27 per cent and Chrysler, 19 per cent. This strong growth in car sales indicates that Canadians are confident enough about their economic prospects to make major purchases.

Productivity in the manufacturing sector grew by a robust 6.9 per cent in 1983, the best performance in the last 12 years. Manufacturing also showed recovery in output in 1983, with very strong growth in the motor vehicle and parts industries, and there was a substantial improvement in pre-tax profit margins as well.

Let me assure you that I realize not all facets of our recovery are equally rosy. Unemployment and interest rate levels are still too high. We must be particularly careful to bring with us a balanced perspective in sizing up our economic performance, and we must keep in mind the general direction of the trend rather than concentrating on temporary pauses or disappointments.

An example of this pattern is in Canada's job creation record. Since the recovery began the economy has generated close to 400,000 jobs, 112,000 of them in the manufacturing sector. The pace has been exceptionally strong by any standard. While the month of March witnessed a lapse in this trend, I fully anticipate a resumption of job creation in Canada as the momentum of the recovery continues.

The fact that unemployment levels have been slow to come down is explained in good part by the growing number of Canadians entering the labour force. Let it be remembered that while the Canadian labour force grew by over 50 per cent between 1968 and 1983, the average growth for the other six summit countries was less than 13 per cent.

Despite the periodic hesitation or lapse, the trend is clearly toward further improvement and sustained economic growth in Canada. My own projections for 1984 are in line with the majority of independent forecasters who anticipate that the nation's real economic growth will be strongly upward of 4 per cent.

As we look to new sources of economic growth for Canada, we must fix our sights beyond our borders on the vast world marketplace. Exports have always been one of the cornerstones of Canada's economic performance and well-being. About 30 cents of every dollar of income earned in Canada is generated from our exports.

Knowing how important it is for us to make sales abroad, it is gratifying that over the past year Canada posted the largest export growth of any industrial nation. We chalked up a near-record trade surplus of more than $18 billion last year, and we have started off early 1984 on the right foot with an average trade surplus of nearly $19 billion at annual rates.

Ontario has an even greater reliance on world markets than does Canada as a whole. Hundreds of thousands of Ontario jobs derive from export related activities. Yet while Ontario is already heavily dependent on foreign markets, it is clear that the province, like Canada, must carve out a greater share of export markets. The world markets offer enormous potential for Ontario manufacturers to expand their exports rapidly and to diversify their markets around the world. The markets are there and they are waiting to be tapped.

Improved foreign trade means more jobs for Canadians. It also means better incomes for Canadians. Recognizing this, I introduced measures in my last two budgets to improve the ability of Canadian companies to gain a toe-hold in foreign markets. The Export Financing Fund established in my 1983 budget is helping small and large businesses to look for export opportunities and to win contracts abroad. This support was amplified in my February budget this year in a way that will further enable Canadian firms to take advantage of export opportunities in developing countries while Canada fulfills its commitment to international development.

Seeking out and finding trade opportunities are, however, the thin edge of the wedge in the international marketplace today. If Canada and Canadian manufacturers are to corner a larger share of that market, we must be more competitive.

In the new economic era, competitiveness has become a watchword for all industrialized countries. If Canada is to excel among the trading nations of the world, then we must take up the challenge of competitiveness seriously and apply ourselves to the pursuit of all that will make us, and keep us, world class.

No, there are no slick tricks to becoming more competitive on the world economic stage. To be competitive, we must face the challenge to reduce costs and become more productive. On this score we have made progress and have much we can cheer about. By the end of last year our unit labour cost increases had moderated considerably from the same time one year earlier and compared favourably with cost increases in the United States. Canada's increase in productivity was the largest since 1976. This stronger productivity performance together with moderating costs enabled Canada to improve our position in world markets last year and increase our exports by more than 5 per cent.

These productivity improvements are encouraging, but they are only a beginning, coming after a number of years of relatively poor performance. Much more will be required of us if we are to measure up in the competitive big leagues.

For our competitive position to be enhanced, we will have to be as preoccupied with the quality of our products as with the quantity. If a company is successful in efficiently producing a great deal of poor quality products, it may, indeed, achieve outstanding productivity growth, but it would not be long before the company's competitive position was seriously eroded.

This is a message our automobile manufacturers have come to realize. Real productivity means manufacturing cars that are of competitive quality and efficiency, that use less fuel, pollute less and last longer. And that is one reason why their sales are enjoying a strong resurgence this year.

What is the federal government doing to help the private sector become more productive? If we are to put our businesses and our workers on a sound competitive footing with other industrialized countries, then it is crucial that we place a high priority on innovative technology and support for research and development. We are creating an environment hospitable to technological innovation and productivity growth, recognizing at the same time the high importance of human development.

The tax system has been the government's major policy instrument for the support of research and development. Tax incentives for R&D have been designed to help give business and industry the means to conduct basic and applied research and to invest in more productive equipment. Indeed, a Canadian Tax Foundation study has described this country's R&D incentives as among the most generous in the industrial world. The small business sector is a good example of where the federal government has provided attractive incentives in the form of lower tax rates and higher investment tax credits on R&D spending.

The federal government's most recent initiative to improve the R&D tax rules has provided a number of benefits that the private sector had requested. All in all, the new measures make financing of R&D simpler, more flexible, more certain and more available.

The tax system is also fostering improved productivity in other ways. For example, in my budget this past February I proposed to simplify the small business tax laws to allow small businesses to operate with a minimum of administrative burden and red tape while at the same time reducing the tax burden by some $150 million. The reduction in time and energy that in the past had to be devoted to tax forms and tax considerations can in future be channeled into the more productive tasks in running a business.

The key to our efforts to improve productivity and thus our competitiveness in the world is ultimately a human question. Canada will not be able to keep stride with the most competitive countries if the major players in our economy go merrily, or sullenly, on their own separate ways, disregarding each other. The challenges are too great for that. To meet them will require of Canadians a spirit of common resolve and a solidarity of effort, qualities which you Rotarians hold as tradition.

The federal government has taken the lead in attempting to nurture the kind of mutual resolve and co-operative effort that is needed. For example, in creating the Canadian Labour Market and Productivity Centre, we are marshalling the leading minds of labour, business and government to explore jointly areas vital to our economic progress. The Centre offers business and labour the unique national opportunity to tackle some of our economy's most urgent problems away

from the traditionally confrontational atmosphere of the bargaining table. I am encouraged by the degree of commitment all participants in the centre have expressed and demonstrated. I am convinced that their efforts will show the way to more productive practices that will make our industries fully competitive both at home and on world markets.

There can be no question that in the final analysis, productivity comes down to the attitudes and motivation of individual workers, be it on the shop floor or in the manager's office. Inspiring a positive and productive attitude in the workplace is of paramount importance. The gain sharing proposal which I set out in my February budget recognizes the close link between productivity and co-operative teamwork in any successful business operation. I am hopeful that this proposal to encourage gain sharing in the private sector sparks employers and employees to sit down together and look seriously at the proposal. It is in their mutual interest. It is in Canada's interest.

As we aspire towards a more productive economy that can satisfy Canada's need for jobs and a good standard of living, it will probably be the eternal intangibles that make the difference between mediocre performance and excellence. Government strategies alone will not win the desired gains. What can breathe life into our efforts are the immeasurable factors such as optimism, confidence, faith, determination, social consciousness and co-operative spirit. Canada will need these qualities in abundance in the coming years to meet the new economic challenges and seize new opportunities. It is encouraging to know these qualities are alive and flourishing in organizations such as Rotary.

Canada will also need the active concern and spirited involvement epitomized by Rotary as we enter an exciting period of political decision and transition. The choices our nation makes in the coming months -- who should guide our country and what course our government should pursue -- will affect the lives of all Canadians. It is a time when a nation calls to its citizens. We cannot strengthen Canada unless more Canadians involve themselves in the political process. We cannot strengthen Canada unless more Canadians take a stand on the issues. For Canada's sake, I hope and trust its citizens will respond.

On that final note let me wish you continued success in making your communities and Canada a better place.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate Release

Ottawa, May 2, 1984
84-63

EXCISE TAX ON MATCHES CONVERTED TO SPECIFIC RATE

The Honourable Roy MacLaren, Minister of State for Finance, today tabled in the House of Commons a notice of Ways and Means Motion to convert the federal excise tax on matches to a specific tax of four cents per thousand matches, from the existing levy of 10 per cent of the sale price.

Mr. MacLaren said that the change, effective May 3, 1984, will result in uniform application of the tax to all types of matches and will provide tax relief for manufacturers who make custom bookmatches, such as those containing advertising.

Since the present excise tax is based on the sale price, it levies more tax on custom bookmatches, because of the extra design and printing costs, than on regular lines. The conversion of the tax will involve little or no change in the tax on regular lines of matches.

Mr. MacLaren noted that other products which carry advertising are not subject to excise taxes, and the change will place match producers on an equal footing with manufacturers of such products. The federal sales tax on matches and printed advertising matter is not affected by the change.

For further information, contact:
David Law
Commodity Tax Section, Tax Policy and Legislation Branch
(613) 995-9981

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 0800 hours EDT

Ottawa, May 9, 1984
84-67

Notes for an address
by the Honourable Marc Lalonde
Minister of Finance
to the High Technology Investors Conference
Ottawa
May 9, 1984

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

I am pleased to be able to join you at this early hour in recognition of the importance of this High Technology Investors Conference. The organizers deserve praise for bringing together such a wide range of participants in the high-technology sector, including those with displays at the Canatech exhibition.

I particularly want to welcome those of you from the United States and other countries. I hope my remarks today will demonstrate that Canada's natural and human resources, joined with favourable government attitudes and policies, have made this country an exciting place to invest in advanced technology industries.

One way or another, all Canadians are investing in the future of high technology industries. Most Canadians participate as taxpayers through a wide range of government programs. It is my hope that more and more Canadians will participate directly as individual and corporate investors.

Today I want to discuss the government's support for investment in high technology and then to look at the private sector investment picture. Of course, the two are closely related. A good grasp of government policies and programs is clearly part of the basic education of every high-tech investor.

While the same might be said of investors in some other key sectors of Canada's economy, I think it is fair to say that the partnership between public and private sectors is particularly important in the high tech field. This reflects, among other things, its strategic nature; the relative newness and fragility of many ventures; the obvious need in a country with a small domestic market for co-operative specialization in some key fields; and the fact that governments in other countries are heavily involved in assisting the growth of their industries.

It has been remarked that the wealth of an industrial nation is not so much the stock of material goods that people have but the stock of technical knowledge of how to make them. Canada's high-technology industries, therefore, are doubly important for the development of our economy. They provide increasingly more economic growth in their own right and they represent one of the keys to better production of goods and services in other economic sectors.

The government recognizes the important role played by your industries in helping build an advanced industrial base. Indeed, in the Government of Canada's policies and priorities for national economic development in the 1980s, industrial development is the main priority. Policies and programs have been and will be developed to ensure that technical innovation remains a major factor in enhancing the competitiveness and productivity of Canadian industry.

Contrary to the impression being given in some quarters recently, progress is being made toward the goal of a major increase in the level of research and development activity in Canada. R&D expenditures as a proportion of GNP were up from about 1.1 per cent of GNP in 1980 to almost 1.3 per cent in 1983. We are well on the way toward the target of 1.5 per cent by 1985.

As you may know, that objective was set by the government in 1980 along with some other important goals. Notable among these was an increase in the share of R&D funded and performed by the private sector to a level of 50 and 63 per cent respectively by 1985. We have made significant progress in these challenges as well, with industry's share of R&D reaching 46 per cent of funding and 56 per cent of performance in 1983. At the same time, provincial governments, universities and other sources have been meeting or exceeding their targets on a proportional basis.

Federal government support for technology development in Canada ranges from tax incentives to training assistance, to grants, loans, and contracts for goods and services, with a value expected to exceed $1.2 billion for 1983/84.

Some important fiscal incentives for R&D have been introduced in recent budgets, in close consultation with the business community. We talked with industry before we made the proposals, and we awaited their comments before acting on them.

Two major changes to the tax incentives for R&D in Canadian industry were made in the past year to improve their effectiveness. These are the replacement of the previous deduction for incremental R&D by a higher Investment Tax Credit for scientific research, and the Scientific Research Tax Credit. The tax credit incentives alone are expected to bring the 1984 level of R&D tax support to $335 million -- an increase of almost 50 per cent over last year.

Through the R&D tax provisions, governments finance up to 62 per cent of R&D expenditures undertaken by companies in a fully-taxable position.

However, not all firms, particularly young firms and those with large R&D expenditures relative to their income, can take full advantage of these tax benefits. Accordingly, it was decided to let companies pass unused R&D tax credits on to investors in the form of the Scientific Research Tax Credit.

Reaction from the industry to this new financing mechanism has been extremely favourable. In fact, over $1 billion of R&D has been funded in the first three months of the program. This is a striking confirmation of private investors' confidence in the technology industry. And it is further evidence of Canada's attractiveness for investment by Canadian and foreign investors alike.

As the Financial Post described it in a recent editorial, "the money window is wide open to research and development companies." The Post said the Scientific Research Tax Credit demonstrates that "with the right sort of incentives we... can count on private investors to funnel an astonishing amount of money into an area which does promise to create jobs."

The measures I have mentioned not only increased the level of general support for R&D, but also made the R&D tax incentive system simpler to apply. Tax incentives can be seen as a means of reducing the considerable risks involved in R&D investment. But let's not forget that risk is the nature of the game, and the game is worth playing because the rewards can match the risks.

It has been said that a relatively high failure rate among young R&D companies is itself a necessary sign of vitality in a sector that thrives on risk-taking. We know that promising new enterprises can grow quickly out of those that shut

down. We also know that innovators must and do take risks. Canada needs to develop a high degree of innovation to move forward in the high tech industry and every other industry. Too little risk-taking will mean too little entrepreneurial spirit, too many missed opportunities.

What this requires is more of the kind of close public and private sector partnership that has been shown in the development of R&D incentives. The goal is to develop entrepreneurial spirit and a new capacity for innovative equity investment by private investors. We need a larger, stronger base of realistic and well-informed investors to help provide a growing supply of vital equity capital for the future growth of the high-tech sector. Carefully-designed tax incentives will continue to play a key role.

Tax incentives alone may not suffice to promote innovation. Successful technology development is also supported by a system of grants to help industry take specific R&D risks. I am sure you are aware of various federal programs providing between 50 and 75 per cent of the costs of approved projects.

In addition, the government also directly stimulates demand for products incorporating new technology. Through procurement and other institutional programs, the government has helped launch new products and processes. The goal is to ensure the critical level of market penetration for new products necessary for domestic as well as export success.

Other agencies and investors have been active in the financing of high technology industries.

Although not exclusively directed at high technology firms, the federal government through the Federal Business Development Bank (FBDB) is providing further encouragement to venture capital investment. A new Investment Bank Division at the FBDB is helping to strengthen the equity base of Canadian firms, particularly small and medium-sized businesses. The investment banking service will complement those available in the private sector and will be offered with the Bank's traditional financing vehicles.

Several provinces have also established venture capital pools with the aim of encouraging the private sector to invest in small businesses. And Canadian venture capital companies themselves have played a major role. As of 1983 they have invested more than $500 million and the amount is increasing.

It is encouraging to note that all types of investors are involved: pension funds, insurance companies, investment companies, major corporations, wealthy investors, and even trade unions -- for example, the Quebec Federation of Labour.

Canadian stock exchanges have responded to the need for financing of smaller companies by easing minimum listing requirements. The Toronto Stock Exchange now has a high-tech index. With all the various programs in place, private investors have become more receptive to new equity issues of high technology firms. In 1983, 20 high technology companies raised over $225 million through initial public offerings.

The principal resource of advanced technology firms is brainpower. Canada has a highly educated, skilled, and motivated labour force. We have world-class universities and scientists. Inexorable and rapid change, however, demands continued commitment and investment in high quality education and manpower training. We are addressing this challenge. Government manpower training assistance, research awards, and university/industry co-operative programs in support of technology development have been budgeted for over $330 million in 1983/84.

All of these encouraging developments should not blind us, however, to potential difficulties and challenges: the process of matching the investor with the inventor must be continually improved; fast growth will require higher levels of investment; international competition will intensify and export markets will have to be aggressively sought; highly skilled employees will be in greater demand and job training requirements will increase.

Solutions will require the co-operation of the federal and provincial governments, venture capital firms, the underwriting community, stock exchanges, and investors. I believe the record shows an increasing level of constructive co-operation in this regard. And we will have to work more closely together in future.

I have described a wide array of public and private sector actions which are helping to improve Canada's R&D performance. According to the OECD, Canada ranked in ninth place among the member nations in 1983, up from twelfth place in 1982, in terms of R&D spending as a proportion of GNP. The fact is that Canada is among the leading nations in R&D in the world. Progress in recent years shows that we can do better. Indeed, we must. And we will.

Nevertheless, we should not over-emphasize the numerical aspect of R&D performance at the expense of sound judgement on the quality of expenditures. We must remember that Canada does not yet have the large and well-developed manufacturing sector that is a key source of higher R&D spending in several other countries. We are trying to develop that sector, and there is a limit to the pace at which progress can be made effectively and efficiently. We also do not have the dominant defence industries establishment that contributes a substantial share to R&D performance in some other countries.

We are not engaged in a contest to see how much money can be thrown at any and all R&D proposals in the shortest possible time. This is a challenge involving a high degree of selectivity and careful nurturing of promising enterprises, both in the private and the public sector.

There is a real danger, for example, that badly-conceived or excessively generous tax incentives could produce not only diminishing returns but some net damage to the development of a strong and sustainable investor commitment to R&D. The challenge is not to develop a taste for ever more generous tax shelters -- goodness knows, that's a taste that needs no special help. What we are trying to do is encourage the taste for creative risk investments in the future of high technology in Canada.

Recently there has been some brave talk about a promised dramatic increase in R&D expenditures, not to mention a variety of other government spending, to be carried out at the same time as the federal deficit is sharply reduced.

A Conservative spokesman says that his party would spend an additional $2.5 billion a year on research and development by the end of the first term of a Conservative administration. I find this statement either naively or dangerously irresponsible, especially after that party claims to have studied and

formulated their policies with prudence. Given this statement, I will be particularly interested to see how that party tries to maintain a credible stance on the important issue of fiscal restraint. And when the Conservatives go on to state that they would double R&D spending in their first mandate, I am inclined to quote the OECD economist whose comment was simply that not only has no country even done it in such a time frame, but it also took Japan 20 years to go from 1.4 to 2.5 per cent, which is not even doubling it.

Let me just say that as Minister of Finance, I have worked, and will continue to work, to ensure a sound environment for investors. As noted by a Canadian Tax Foundation study, Canada already had one of the most generous sets of tax incentives for R&D even before the considerable improvements introduced last year. Of course, the revenues foregone through tax incentives have a direct bearing on the government's financial position which is itself a key factor in the investment climate. A strong and continuing measure of fiscal responsibility is vital to investor confidence. And that requires a high level of credibility in terms of the capacity to deliver on promised increases in spending at the same time as deficits are to be reduced.

My budgetary policy has been founded on firm restraint and reduction of deficits over a period of several years. I can tell you today that we are on track and making good progress in that regard.

As you may know, my budget forecast for the government's financial requirements for the 1983-84 fiscal year was $27 billion. I am pleased to report on the basis of the information currently available to us that we will be well within that forecast. Indeed, when the final audited public accounts figures are available, it is likely that we will be well below that estimate, possibly by as much as $1.7 billion. The government intends to build on that solid fiscal momentum.

Let me say further than it has not been easy to restrain expenditures and borrowing requirements. The word "no" has been used often and to real effect in our drive to stay on a steady course of fiscal responsibility while serving the needs of economic development and social security.

High technology will play a key role in leading Canada's economy successfully into a new era of intense international competition. High technology innovation and application is crucial to Canada's effort to improve the productivity and the competitiveness of existing industries. It is essential to the maintenance of the social and economic well-being of all Canadians.

From an individual private investor's point of view, there would not be much attraction in rushing in to serve these broad national purposes if there were not also the possibility of making some money in the process. I think it is important to emphasize the connection between the fact that high tech is at the leading edge of economic development and the fact that the industry offers such tremendous potential for growth and profits.

From the standpoint of the private sector as a whole, however, there is an overriding consideration that determines the need for a continued increase in R&D investment. Beyond the attraction of future growth and profits, there is the fundamental question of survival in an economic sense. We cannot stand still in the kind of economic world in which we now live. In that regard, the private sector shares fully in the larger economic and social challenges reflected in the R&D investment policies of the public sector.

I am confident that Canada will meet the challenges and gain the benefits of technological progress. The road ahead is exciting and full of opportunities. They will be realized if the private sector continues to take the initiative and the public sector continues to create an attractive environment for that initiative.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 1145 hours MDT

Ottawa, May 10, 1984
84-70

CA1
FN

Notes for an address
by the Honourable Marc Lalonde
Minister of Finance
to the Canadian Federation of Labour
Edmonton, Alberta
May 10, 1984

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Let me say first how much I appreciate the invitation to speak to you as members of the labour movement in Canada. As Minister of Finance, I have been acutely aware of the vital role of labour in meeting Canada's economic challenges. And I have been greatly impressed by the contribution of the Canadian Federation of Labour to the consultations that I have undertaken to help meet those challenges.

Your voice has been heard on a wide range of issues, some of which I will touch on today. The principled and pragmatic approach taken by your leaders clearly demonstrates that labour's voice can and must be heard on <u>all</u> the major economic questions of our time. Workers have just as much of a stake in the investment behaviour of Canadian industry as do the corporation owners and managers. Workers have a right to be heard on questions of economic policy with every bit as much respect and appreciation as the business community.

Indeed, those of you who make your living in the private sector have every reason to consider yourselves full partners in the business community in the broad sense of the term. Successful communities rarely consist of one interest or speak with one voice. What they can and must do is bring out the best of their many voices in an effort to promote the shared interests of all their members. On an economy-wide scale, that is the aim of the federal government's drive to build a new economic partnership of labour, business and government. We've reserved a seat at the table for labour -- and it is vital that you occupy it.

The idea of partnership is founded on the fact that labour, business and government play separate and different roles in the economic arena. These differences are fundamental. They will not disappear, nor should they, simply because the partners co-operate. Yet, there are still those in every sector who act as if the survival of organized labour, business or any given government depended on widening the gulf among the major partners.

The opposite is closer to the truth. The very survival of Canada as one of the world's successful economies depends on all of us working more closely together as partners in recognition of those common interests that unite us. The future in the labour movement, in business and in government belongs to those who understand that only by building strength together can we maintain the strength of our separate institutions.

Today I want to discuss some of the basic steps that we are taking and must continue to take to build an economically strong Canada. A Canada that provides the new jobs and the rising measure of economic opportunity and security that we all desire. In the process, I want to focus on some basic questions of fundamental importance to the working people of Canada.

Let's begin with the issue of inflation and the drive to improve Canada's cost competitiveness in domestic and foreign markets. Many commentators deal with this subject under the heading of "economic restraint" -- as if the economy would be more free to grow and prosper if we stopped worrying about inflation. Of course, the contrary is the case. Nothing restrains the growth of an economy more than a steady loss of its ability to compete for a share of markets.

That is why the dramatic improvement in Canada's price and wage performance in the past two years has been so widely recognized as good news for all Canadians. We have seen an end to the destructive spiral of wages chasing prices chasing wages, relentlessly driving the rate of inflation higher, thereby eroding the value of your pay cheque. In the same way, Canada's competitive position suffers in a contest nobody can win -- not labour, not business, not government.

Rampant inflation makes losers of workers who fail to outrun inflation and suffer the loss of purchasing power. But the biggest losers are those workers who lose their jobs, or are unable to find jobs, because Canada's economic position is damaged by a poor cost performance. For those without jobs, there is small consolation in knowing, for instance, that real disposable income -- the money you have left over after inflation and taxes -- has increased 60 per cent per capita in Canada since 1968, compared to about 35 per cent in the United States.

As those of you in the construction industry are aware, Canadians are competing not only with foreign countries for a share of valuable markets. The members of several construction trades have seen their share of the home repair and renovation market shrink over the years as more and more people decided they couldn't afford to pay for professional help.

My point is not to argue against pay increases. Quite the contrary. But we must all be aware that there are consequences to be faced when costs get out of line. Consumers, whether they be individual Canadians or foreign buyers of our goods and services, make hard-headed decisions when they spend their money. And that's what the country as a whole has done in deciding that the inflationary cycle must be ended.

The government believes that these kinds of decisions are best carried out through the collective bargaining process. That is why we were willing to return to full collective bargaining for the federal public sector when the 6 & 5 Program begins to phase out. At the same time, however, the government has served notice that public sector bargaining will be based on the same kind of realism that led Canadians to bring down the rate of inflation. To reinforce that determination, we have continued with tough guidelines for federally-regulated prices.

We have come a long way back from the severe world recession that ended in late 1982. But we have a long way to go to spread the economic recovery into all sectors of the economy -- and few know that better than the members of Canada's construction unions. By working together to keep Canada competitive, labour, business and government can build new economic strength and new hope for Canada's unemployed.

I want to turn now to the issue of unemployment which has been, quite rightfully, a major focus of concern during the recession and since. It is important to view this question in perspective. Canada's job creation record has been the best among the major industrial nations over many years. There are 3 million more Canadians employed now than in 1968 -- thanks to a rate of increase in employment growth far greater in Canada than in the other industrial nations. But we have also had the fastest growing labour force by far, and this has kept the pressure on Canada's unemployment rate.

I think it is useful to illustrate the effect of labour force growth. If Canada's labour force had grown at the same rate as that of the United States since 1968, for example, there would have been almost one million fewer Canadians in the labour market in 1983 than there actually were.

That smaller labour force would yield a hypothetical unemployment rate of 4 per cent instead of the 11.9 per cent we actually had in 1983. Of course, there is no certain way to calculate what the actual unemployment rate would have been in that circumstance because we know that many of the same factors leading to lower growth in the labour force would also have affected our economic growth rates and our ability to create jobs. But it does serve to demonstrate what is too often overlooked -- that there is a direct link between rapid labour force growth and higher than average unemployment rates.

My point is not to defend a high unemployment rate but to emphasize the challenge we face in bringing it down. Because so many Canadians are seeking jobs, we have to work extra hard at producing and selling the goods and services which provide those jobs. Since the recovery began, more than 390,000 jobs have been created. My budget of February 15 forecast that almost 1.6 million jobs will be created in the next five years. That's a forecast, not a certainty. It means we can do even better than that if we make the most of Canada's human and natural resources.

I don't have to tell you that Canada's economy depends a great deal on events beyond Canada's borders and beyond Canada's control. The strength of the world recovery, interest rates in the United States and other countries and the success or failure of efforts to keep foreign markets open to Canadian goods -- these are all crucial influences on our economic situation.

There are those who argue in effect that since Canada lives in a sometimes difficult economic world, the best policy would be to opt out of it, to build walls around the Canadian economy. Quite frankly, I can't think of a better prescription for economic disaster than a policy that tries to shut out a world that provides 30 cents of every dollar of income earned in Canada through exports; a world whose rapid technological advances promise to open up exciting new opportunities for all countries who play their part; and a world in which the reality of common economic interests is increasingly being recognized.

We have no choice but to make our way in such a world as best we can in all kinds of economic weather. And we can do so in the knowledge that Canada's long-term record compares well with that of any industrial nation, including the past decade of challenging international economic change. I believe the Canadian worker can meet and beat the best that our foreign competition has to offer.

We've done well in the past. We can do well in the future if we devote our best efforts to the job. The challenge has been tackled in several ways in the budgets that I brought forward in the spring of 1983 and the winter of this year. For example, direct support for investment in future economic growth and for job creation now was provided through the $2.4 billion Special Recovery Capital Projects Program, very much along the lines suggested by your federation. This means Canadian workers on the job rigging steel, pouring concrete, building essential facilities for future economic development. More than $1.1 billion of the work is being carried out this year.

In total the federal government will be spending more than $3.5 billion on Special Recovery Capital Projects and on direct job creation and job training in the current fiscal year.

We also provided incentives valued at $2.4 billion for the private sector investment which is so crucial to Canada's economic future.

At the same time, my first budget confirmed the government's determination to maintain the country's social security system in the face of intense financial pressure for the kind of cutbacks that have been made in other countries. We did not and we will not pull away the safety nets for the victims of economic misfortune.

My second budget moved forward with far-reaching reforms to help provide all Canadians with a more secure future. We introduced a trail-blazing mortgage insurance plan to help homeowners cope with the fear of sharp increases in interest rates. We increased the Guaranteed Income Supplement for 750,000 of Canada's neediest pensioners as part of a far-reaching reform of Canada's pension system to help Canadian workers provide for the future.

These measures and many more are evidence of the government's commitment to protect and advance the interests of all Canadians. I want to emphasize that all of our initiatives are founded on the need for Canadians to share, to work together and to succeed together through the partnership approach.

No issue illustrates this better than the need to improve the productivity which is the basis of an improving standard of living. I talked a few moments ago about keeping Canada cost-competitive. It is elementary economics that the more we can produce and sell for every person working in Canada, the better the chance of being competitive and providing jobs for other Canadians. A company that can turn out 100 items per day for every worker it employs is going to have a tremendous advantage over one that produces only 50 items. The goods produced less efficiently may not be competitively priced -- even if the workers take pay cuts. And that means that their jobs would be in jeopardy. And when manufacturing jobs are threatened so are those of other Canadians in the service industries which depend on the personal spending power of Canadians.

Rising productivity not only saves old jobs, it creates new ones. So there really is no choice. Either we succeed in the economic world by improving our productivity along with the quality and reliability of our products -- in competition with other countries --or we lose out. We can't be bystanders. And that applies to all of us, because all of us have a contribution to make to productivity.

Encouraging gains were made in Canada's productivity during 1983, but they follow several years of relatively poor performance. Let's be clear on this point: poor productivity does not mean that workers are lazy. Productivity is a complex issue. The Canadian Manufacturers Association suggests the quality of management is the single most important factor. I am inclined to agree with them.

From the start as finance minister I have emphasized the human dimensions of the productivity challenge. Some people have chosen to downplay the contribution that workers can make to better economic performance, arguing instead that it's the quality and quantity of investment in new machinery that

largely determines productivity. Important as those factors are, the fact remains that the new economy in which Canada must compete successfully will rely as never before on the quality of human effort that goes into it.

Productivity is well-trained workers, safe and clean working conditions and a flexibly-organized workplace that takes account of the human need for challenge, for incentive and for real opportunities to advance. Productivity is less work time lost to lockouts and strikes. In short, productivity is a reflection of the kind of good working partnership that we can develop between labour and management.

As an integral part of this partnership, the Government of Canada has emphasized the need to open the door to labour to ensure that it has an equal voice in the resolution of major issues such as technological change and a fair share of the benefits of economic recovery.

The new Canadian Labour Market and Productivity Centre is a forum in which the voice of labour will be fully heard on such fundamental issues. I am pleased to announce today that your president, Jim McCambly, is on the board of directors of the centre along with Budd Coutts of the Operating Engineers and Donald Whan of the Boilermakers. Labour representatives are being invited to join the boards of selected Crown corporations. New methods of co-operative productivity improvement will be tested in Crown corporations and the public service. A number of changes to the Canada Labour Code will improve occupational health and safety and raise standards in other important areas.

My February budget introduced the Employee Profit Participation Plan as a further incentive for workers and managers to join forces in the drive to improve productivity and profits and to share the benefits.

Life in the workplace requires innovative new approaches. Nevertheless, some in the labour movement see this as a threat to unions. On the contrary, it is a challenge the unions have to pick up, not one to be walked away from or resisted in a vain attempt to go back to the past.

The history of organized labour is one of accepting challenges. There is no reason why the collective bargaining process should not once again meet the test of change and actively encourage the more imaginative and more flexible approach that will help make the workplace a more successful place for labour and business.

I am pleased to note that during consultation meetings, your suggestions have ranged over virtually the entire spectrum of issues and initiatives that I have discussed here today -- further evidence that the door is open to a full role for labour for those who choose to use it.

As you are all aware, Canada is in the midst of a most interesting period of political change which will culminate in a federal election and the choice of a new government. You may also have noticed that the major issues in this period are economic issues of very basic importance to working people and to those who are seeking work.

A great deal is at stake for all Canadians.

One of the fundamental questions to be faced in the years ahead is whether the great progress we have made in terms of the basic social and economic security of individual Canadians can be preserved and enhanced. I know of no politician, at least in my party, who would answer no to that question.

The government I represent has resolutely and steadfastly defended social programs from attack in Parliament and across the country. Our policies and programs are well known. We take pride in them, and in treating them as matters for full public debate.

The labour movement has played a leading role in the collective social and economic progress of Canadians over the years. I believe you have an equally important role to play in making sure that all those who seek your support make themselves clear on such vital national issues as the future of Canada's medicare system, the unemployment insurance program and the total income security network.

Such questions are too important to be left unanswered. There is too much at stake simply to trust in vague assurances that there is nothing to worry about.

As finance minister, I have made fiscal responsibility a foundation for the budgets I have brought forward. We know we have to restrain and reduce government deficits now and in the years ahead, and we are on course in our plans to do just that. But I have made equally clear that social responsibility is part and parcel of fiscal responsibility. Indeed, being fiscally responsible would have little meaning, little value, if it did not have a social benefit.

We have made good progress in recovering from the most severe recession the world has seen in the past 50 years. Canada will continue to move forward if we all work together to make it happen. But Canada can move forward only if the needs of all Canadians are addressed together. And that cannot be done by withdrawing government support from essential economic and social programs at the very time they are most needed.

In the same way, we cannot achieve our objectives by returning to the kind of scapegoat style of policy-making -- be it in government, business or the labour movement -- that makes it so easy to treat the needs and interests of others as more or less expendable in difficult times.

That is not the spirit that built this country nor is it the spirit that will carry Canada into the better future that is within our grasp.

I am confident that we will build that future by continuing to broaden the base of partnership among the major players in the national economy. I commend you for coming forward to do your part. And I invite all Canadians to do theirs.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, May 14, 1984
84-73

CANADIAN LABOUR MARKET AND PRODUCTIVITY CENTRE BOARD APPOINTED AND ORGANIZATION LAUNCHED

The Honourable Marc Lalonde, Minister of Finance, announced today the names of business and labour representatives who will comprise the Board of Directors of the Canadian Labour Market and Productivity Centre. (See list of names attached.)

The Canadian Labour Market and Productivity Centre was established on January 27, 1984, the result of a memorandum of understanding signed by Shirley Carr and Thomas d'Aquino, co-chairpersons of the labour/business founding committee which developed the concept of the Centre and recommended its implementation. Signing on behalf of the Government of Canada were, Mr. Lalonde, Regional Industrial Expansion Minister Ed Lumley, Labour Minister André Ouellet, and Employment and Immigration Minister John Roberts.

Mr. Lalonde stated that "the Centre represents an imaginative step forward by the leaders of business and labour in Canada in addressing vital issues affecting the labour force and productivity." He said that he was "pleased that the Government of Canada is able to support this initiative with funding and that representatives of both the federal and provincial governments have been invited to join the board of the Centre."

The Centre's board will include 12 representatives of labour and 12 representatives of business. They will have full voting powers. Each province will have one seat on the board. The federal government will have four. And two representatives of the academic community will also be appointed to the Board by the business and labour representatives.

Founding Committee Co-chairperson Shirley Carr, Executive Vice President of the Canadian Labour Congress, stated that "the Centre offers business and labour an opportunity to tackle problems that will lead to more jobs and to a more realistic treatment of the serious economic problems facing Canada."

Founding Committee Co-chairperson Thomas d'Aquino, President of the Business Council on National Issues, said: "The Centre has a significant potential - but progress will be achieved only if business and labour learn to work towards common goals with single-minded determination. This will require reconciliation, compromise, and positive political will."

../2

Nominees to the board were proposed to the government by members of the Founding Committee following extensive consultations with the constituent organizations.

On the part of business, the organizations represented on the Steering Committee are the Business Council on National Issues, the Canadian Chamber of Commerce, the Canadian Federation of Independent Business, and the Canadian Manufacturers' Association.

On the part of labour, the organizations represented are the Canadian Labour Congress and the Canadian Federation of Labour.

The permanent board whose members are announced today will meet at the earliest convenient opportunity to select an executive committee, to approve an organizational plan, to set a work agenda, and to begin the selection of the Centre's permanent staff.

The National Capital region will serve as the headquarters of the new Centre. The Board of Directors of the Centre will ratify this decision at their first meeting in Ottawa.

For further information, contact:

Pierre-Paul Proulx
Acting Executive Director
(613) 593-5101

NOMINEES TO THE BOARD OF THE

CANADIAN LABOUR MARKET AND PRODUCTIVITY CENTRE

Mr. Donald E. Baker	Deputy Minister of Industry (Government of Prince Edward Island), CHARLOTTETOWN
Mr. Frank P. Benn	International Vice President Director, District 18 United Food and Commercial Workers International Union, DON MILLS
Mr. Rodrigue J. Bilodeau	Chairman and Chief Executive Officer Honeywell Limited, WILLOWDALE
Mr. Valerie Bourgeois	General Vice President International Association of Machinists and Aerospace Workers, OTTAWA
Mr. James M. Buchanan	President Canadian Paperworkers Union, MONTREAL
Mrs. Shirley Carr	Executive Vice President Canadian Labour Congress, OTTAWA
Mr. Alton S. Cartwright	Chairman and Chief Executive Officer Canadian General Electric Company Limited, TORONTO
Mr. Joseph Clark	Deputy Minister of Labour and Manpower (Government of Nova Scotia), HALIFAX
Mr. Marshall A. Cohen	Deputy Minister of Finance (Government of Canada), OTTAWA
Mr. H. Clive Chalkley	H. Clive Chalkley Associates, CALGARY
Mr. Budd Coutts	Canadian Director International Union of Operating Engineers, TORONTO
Mr. Kealey Cummings	National Secretary-Treasurer Canadian Union of Public Employees, OTTAWA
Mr. Mark Daniels	Deputy Minister of Labour (Government of Canada), OTTAWA

Mr. Fernand Daoust	General Secretary Quebec Federation of Labour, MONTREAL
Mr. Gérard Docquier	National Director United Steel Workers of America, TORONTO
Ms. Mary Eady	Deputy Minister of Labour (Government of Manitoba), WINNIPEG
Mr. John P. Emerson	President EPC Industries Limited, SAINT JOHN, N.B.
Mr. Gordon N. Fisher	President Southam Inc., TORONTO
Mr. Jean-Jacques Gagnon	Retired Senior Executive Vice President Alcan Aluminium Limited, MONTREAL
Mr. J. Peter Gordon	Chairman and Chief Executive Officer Stelco Inc., TORONTO
Mr. Peter Grady	Deputy Minister of Labour (Government of Saskatchewan), REGINA
Mr. Brien Gray	Vice President and General Manager Canadian Federation of Independent Business, WILLOWDALE
Mr. Wayne Green	Assistant Deputy Minister, Manpower (Government of Newfoundland), ST. JOHN'S
Mr. Yves Guérard	President Groupe Sobeco Inc., MONTREAL
Mr. James D. Hunter	National President Canadian Brotherhood of Railway, Transport and General Workers of Canada, OTTAWA
Mr. Nicholas Ignatieff	Assistant Deputy Minister of Labour (Government of Ontario), TORONTO

Mr. Albert Kennedy	Assistant Deputy Minister, Support Services Division (Government of Alberta), EDMONTON
Mr. Gaetan Lussier	Deputy Minister of Employment and Immigration (Government of Canada), OTTAWA
Mr. James McCambly	President Canadian Federation of Labour, OTTAWA
Mr. Donald R. McKenzie	President Consolidated Parts Distributors of Canada Limited, WINNIPEG
Mr. Stanley F. Melloy	Chairman Continental Bank of Canada, TORONTO
Mr. Fred Pomeroy	President Communications, Electronic, Electrical, Technical and Salaried Workers of Canada, OTTAWA
Mr. Robert Saunders	President Smith Brothers & Wilson, VANCOUVER
Mr. Norman Spector	Deputy Minister, Office of the Premier (Government of British Columbia), VICTORIA
Mr. William Teschke	Deputy Minister of Regional Industrial Expansion (Government of Canada), OTTAWA
Mr. Donald Whan	International Vice President International Brotherhood of Boilermakers, EDMONTON

Gover
Public

Department of Finance
Canada

Ministère des Finances
Canada

N1
N20
-55

Release | Communiqué

Immediate Release

Ottawa, May 18, 1984
84-78

FINANCE MINISTER INITIATES CONSULTATIONS ON TRANSFERABILITY OF TAX DEDUCTIONS

The Honourable Marc Lalonde, Minister of Finance, today announced he is initiating consultations on tax provisions enabling firms to obtain more immediate offset against taxable income for tax deductions and losses incurred. The consultations will also deal more generally with the ability of taxpayers to take full advantage of the incentives contained in the corporate tax system.

"The process followed in developing several recent tax initiatives has demonstrated the importance of consultations with representatives of those affected to obtain their views and experience before any changes are proposed," Mr. Lalonde said. "Accordingly, I have asked my officials to conduct a series of consultations to ensure a thorough review in this area and to develop proposals."

Mr. Lalonde said: "I have received taxpayer representations in a number of areas, including the need for consolidation of incomes and losses for tax purposes within corporate groups, and changes to the rules affecting the tax treatment of equipment leasing. While sympathetic to these concerns, given the importance and complexity of tax policy issues, I feel it important to gather further information in order to determine the necessary changes."

In 1977 important tax changes were made to allow one corporation to deduct the losses of another on amalgamations or wind-ups. More recently, the tax provisions relating to the deduction of losses by corporations have been further

liberalized by the April 1983 budget. These changes include extended carryovers of losses and tax credits from one year to reduce tax in other years, the special recovery refundable investment tax credit, the special recovery share-purchase tax credit, and the scientific research tax credit. These measures allow firms in a non-taxable position to receive more immediate benefits from their losses and tax incentives.

Mr. Lalonde noted: "Nevertheless, I am concerned that Canada's tax rules in these areas may still be more restrictive than those of some other countries such as the United States and the United Kingdom. I believe that further initiatives are needed in this area."

The Minister said that the study must also be concerned with complexity of the tax law. "While it is possible that changes in these areas could simplify business operations by reducing the need for complicated arrangements simply for tax purposes, it is important that new rules proposed do not in themselves add to tax complexity."

He stated that the most pressing issue is that of barriers to the transferability of tax deductions and tax losses that can arise within groups of companies with common ownership. The Minister said he intends to introduce a mechanism into the tax rules to deal with this particular issue at the earliest opportunity.

Further information:

David Holland
(613) 992-1282

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 1000 Hours EDT

Ottawa, May 22, 1984

84-81

Notes for an address
by the Honourable Roy MacLaren,
Minister of State for Finance,
to the Pennsylvania Bankers Association

Harbour Castle Hilton Hotel
Toronto
May 22, 1984

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Thank you very much for your kind invitation to address your annual convention. I understand that this is the first time you have held your convention outside the United States. Accordingly, I wish to extend an especially warm Canadian welcome to all of you. I hope that you will have ample opportunity during your stay to enjoy some of our hospitality and to join the City of Toronto in celebrating its 150th anniversary.

Your coming to Toronto follows a long tradition of American visits, dating back to the days when Toronto was known as the town of York and the province of Ontario was called Upper Canada. One of the most noteworthy visits took place more than 170 years ago when the American military decided to hold a different kind of convention here for an extended weekend. In their apparent exuberance they succeeded in destroying the Parliament Building and several other town landmarks.

Happily, conventions are not quite that boisterous anymore. And if I have exercised some licence in my allusions to the American occupation of York during the War of 1812, it is simply as a way of underscoring that our respective histories have been intertwined for a long time.

The fact that your association has chosen Toronto for your convention epitomizes the special nature of the relationship that has grown up between our two countries. That relationship is characterized by a time-honoured bond of friendship.

But it is a relationship that goes far beyond neighbourliness, however warmly felt. The linkages between us are extensive and run deep. Our private sectors are largely integrated. Canadian and American businesses have invested enormous sums of money on the other side of the border. The

United States is Canada's largest export market, as we are the largest market for the U.S. Our financial markets are highly interrelated. In fact, we are coming to realize that our relationship is more than one of interaction; it is increasingly one of interdependence.

It is fair to say that given our difference in size and economic influence, Canada's dependence is the greater. The business and financial climate in Canada is sensitive to the developments in the American economy, developments we always follow with studious interest, and sometimes even with concerns as well as admiration.

The United States also relies on Canada to help fuel its economy. The U.S. needs to import Canadian products. America benefits from Canadian investment. In short, America too has a particular interest in economic and financial developments in Canada.

As bankers, you know that the competitiveness of financial institutions, at home and abroad, rests largely on the strength and well-being of the economy. Today, therefore, I should like to review the economic progress of the Canadian economy in relation to that of the United States, and then to discuss some of the developments in our financial sector.

Canada's economic recovery has contributed in a major way to making the North American recovery a leading world force since the recent recession. From the fourth quarter of 1982 to the fourth quarter of 1983, real GNP rose 6.6 per cent in Canada in comparison to 6.2 per cent in the U.S. It is generally agreed that in Canada the more moderate pace of growth of the fourth quarter of 1983 will continue through 1984, unlike the situation in the U.S. where a renewed surge of rapid growth has been recorded in the first quarter of 1984.

The annual World Economic Outlook of the International Monetary Fund expects Canada's economic performance in 1984 to be significantly better than the average for the major industrial nations in a number of important categories. These include increases in real GNP, real domestic demand, employment and exports. The most recent OECD Economic Outlook held a similar view of Canada's prospects. I share the view that Canada's economic performance will continue to rate highly among the major industrial nations.

In Canada we seek to promote continued economic growth at a pace consistent with the control of inflation and the lowest possible interest rates. From a policy standpoint, while the sprinter's acceleration is appealing, the long distance runner's more sustainable pace is a surer bet.

Canada's competitive position has been improving since the recovery began, assisted greatly by a dramatic fall in our rate of inflation. For example, our rate of inflation as measured by the GNP deflator reached 3.8 per cent in the fourth quarter as compared to 4.1 per cent in the United States. Productivity has risen substantially -- up 3 per cent in the fourth quarter compared with a year earlier. Manufacturing productivity rose almost 7 per cent -- the best performance in 13 years. Unit labour cost increases have been moderating -- to a level of only 0.4 per cent higher in the fourth quarter over a year earlier as against 2.5 per cent in the United States.

Canada's merchandise trade surplus was at a near record $18 billion in 1983. We have started off 1984 on the right foot with an average trade surplus of nearly $17 billion at annual rates in the first quarter. Canada's overall current account continued to show strength in 1983 with a $1.6 billion surplus, the second highest on record, a dramatic contrast to U.S. experience in recent times.

Against this background, it is clear that the recent downward drift of the Canadian dollar against the U.S. dollar does not reflect fundamental weakness in domestic economic performance. The movement of the Canadian dollar underlines the extent to which Canada and other industrial nations are linked to the United States capital markets and hence U.S. interest rates. The recent edging upward of interest rates in the United States expresses the concern that economic growth now exceeds a sustainable pace in the U.S. This fear is of course closely related to concerns about the U.S. government deficit and to the risk that overly rapid growth would create rising inflation and crowding pressures in capital markets.

Although we in Canada have some flexibility in designing monetary policy apart from external considerations, the interdependence of our economies and openness of our capital markets does not allow substantial divergences over long periods.

It is sometimes said Canada could have substantially lower, "homemade" interest rates. This view ignores the reality of Canada's open economy, including the fact that capital flows would quickly reflect the interest rate disincentive. Some people even argue that a cheaper dollar should be promoted as a means of reducing interest rates. They forget that capital markets and domestic and foreign investors can exact a hard price. Higher inflation, higher interest rates and potentially serious financial market uncertainty would be the results. The Government and the Bank of Canada will continue to follow a prudent course, including continued resistance to sharp downward movements in the exchange rate and continued attempts to moderate interest rate movements.

Government deficits in Canada cannot be ignored, and are not being ignored, even when their impact is overshadowed by that of the U.S. federal deficit. Canadians have learned that they must put their economic house in order to hold their own in a tough world. This includes making sure that the public sector demand for borrowed capital does not impede the private sector as its need for capital increases. Our last two federal budgets confirmed the government's present course of steady reduction of the deficit.

Business investment in Canada has been slow to recover from the recession. This is not surprising in several respects -- not the least being that investment was so strong in Canada for many years prior to the recession. The greater severity of the downturn in Canada was harder on consumer demand and on business balance sheets. Consumer demand has, however, now added muscle to the recovery, balance sheets are improving rapidly and stronger investment will follow.

The outlook for the years ahead is one of attractive investment opportunities in Canada. We expect to see healthy business investment performance, including foreign investment. I would note that despite Canadian interest rates being low in 1983 by historical standards in relation to those in the U.S., there was a net long-term capital inflow of $2.8 billion into Canada. Such figures reflect not only the basic advantages that Canada offers as a place to invest, but also our welcome to new investment bringing benefit to Canadians.

This welcome we have recently extended to the foreign banking presence, including a strong U.S. contingent. Last month the government introduced legislation to increase the ceiling on the assets of foreign bank subsidiaries to 16 per cent of the total domestic assets of the Canadian banking system. That is double the previous ceiling. The new 16 per cent ceiling would immediately remove the current constraints preventing the further growth of foreign bank subsidiaries and will allow them to grow, to continue to serve Canadian business, and to contribute to the healthy and beneficial competitive atmosphere in our banking industry.

While the Government is moving to raise the domestic asset ceiling, we are not yet prepared to remove it altogether. The new ceiling should provide foreign bank subsidiaries ample room for expansion until the next revision of the Bank Act in 1990. The question of whether the ceiling should be eliminated completely raises important questions which will be considered in the context of a thorough review of financial institutions legislation.

Such a thorough review is now underway. Last December I announced the creation of an industry advisory committee to study the evolution of our financial sector and to advise me on appropriate directions for change. That committee is now in the midst of its work. The need for a comprehensive and incisive review became pressing in the wake of the manifold and accelerating changes in the domain of financial institutions.

The U.S. financial system has also been passing through a period of rapid change, becoming the crucible for some of the most dramatic developments in financial services. The blurring of distinctions within the financial system is occurring in both our countries. The corresponding diversification of one type of institution into areas formerly the preserve of another, have at times given the impression of a free-for-all among financial institutions.

While increasing change has characterized both countries, the pace and focus of regulatory change have differed. This reflects both the fundamental difference in the structure of our respective financial systems and the differing jurisdictional superstructures governing financial activities.

For those of you unfamiliar with the Canadian financial system, let me make just a few points to set the scene. While there are many similarities between the Canadian and the American financial systems, there are fundamental differences in structure, especially in banking. Thus in Canada, for example, the banking and trust functions are separated, unlike the joint operation of those functions in the United States. A major difference is that we have always had nationwide branch banking in Canada. As a result, we have fewer banks which are much larger than all but a handful of banks in the United States. In the U.S. there are more than 14,000 banks. In Canada, we have only 71, but these have 7,300 branches spread right across the country. Even though there are 58 foreign banks now operating in Canada under federal charter, five of the major Canadian banks represent about 90 per cent of the Canadian banking market.

There are also important differences between the state-federal jurisdictional sharing in the U.S. and the federal-provincial arrangements here in Canada. The overlapping regulatory regimes in the United States have often led institutions to choose the regulator of least resistance in an effort to expand activities. In Canada, there is less room to avoid regulation since banks, our largest financial institutions, are regulated solely by the federal government.

Because of the dramatic nature of the current U.S. move to deregulate financial institutions, Canada is sometimes assumed to be a follower rather than a pathfinder. This is not so. The fact is that Canada moved to deregulate some time ago. The Porter Commission, a watershed study in Canadian finance, made numerous recommendations to increase competition and loosen regulatory ties. This was twenty years ago, a time when, in retrospect at least, there was relative economic calm and order. Acting on those recommendations, the government removed interest rate ceilings; gave greater access to mortgage markets to the banking system; banned tied arrangements between banks and trust companies; and made other changes in this spirit. At that time it was possible to phase in the changes and preserve an element of order in the transition.

By contrast, the United States chose to maintain interest rate ceilings and to try to protect markets such as the mortgage market for smaller institutions, namely the thrift institutions. In the 1970s, sharply rising interest rates wreaked havoc on this regulatory structure as market interest rates moved above the regulated maximums for deposit rates. Many institutions were brought to the brink of insolvency. When the U.S. authorities finally moved to deregulate, it was done in a crisis atmosphere, a situation we were able to avoid in Canada.

Regulatory change itself has been one of the prime agents leading to the blurring of distinctions in Canada. That is why I attach great importance to a comprehensive approach in assessing what regulatory changes are desirable. Given the interrelated, interdependent nature of the financial services sector, legislators can never predict with certainty what events will transpire as a result of a regulatory change. We cannot anticipate with certainty what will be the chain reactions.

We can be fairly certain, however, with the benefit of hindsight, that regulatory change can foster conditions that will lead ultimately to pressure for further regulatory change. For example, the large and highly competitive presence of Canadian chartered banks in consumer and mortgage lending, the major activities of the near banks, is clearly a factor impelling the near banks to seek new growth opportunities in other markets, particularly in commercial lending. Thus the regulatory changes which removed the barriers on bank entry into consumer and mortgage lending markets have in turn generated pressure to remove constraints on the commercial lending activities of the near banks.

A comprehensive approach to regulatory change is especially important today because the various institutions have such a large stake in any sequential changes. In the technically sophisticated, rapidly adapting financial world of 1984, new opportunities tend to be quickly seized. And a significant competitive advantage can rest with those financial institutions which are given priority in regulatory change.

The challenges to policymakers in both Canada and the United States are clear -- that is, to allow market forces to function freely and to enable sensible adjustments to take place; but as important, to ensure that changes do not diminish the protection that public policy has provided the "little guy" or weaken the public confidence and trust in our financial institutions.

At the outset, I spoke of the broad trend toward a more interdependent economy between our two countries. The activities of financial institutions mirror this broad trend. Canadian financial institutions have developed extensive operations abroad. In banking, for instance, about 40 per cent of bank assets are in foreign currencies, primarily in U.S. dollars. Most of the foreign business is done in the U.S., with other important markets in Western Europe, Latin America and the Pacific. Indeed, some have said that our large banks have effectively shifted from being Canadian banks doing business internationally to international banks with a Canadian base.

The extent of foreign participation in Canada's financial system varies with the type of institution. As I have mentioned, the foreign share of Canadian banking has been historically low, but is now being encouraged to increase. One-fifth of the life insurance in force in Canada has been written by American and British-based companies.

From Canada's perspective, we see much that is salutary in the greater internationalization of financial services. And we see an important role for American firms operating in Canada. Your presence is indeed one way of ensuring that our domestic institutions continue to be competitive.

But American companies operating in Canada and Canadian companies operating in the U.S. and abroad serve many other mutually beneficial roles. They can be conduits for new technology, new ideas and innovative practices. And while there are alternative channels for the introduction of new techniques, first-hand experience and familiarity with them make for an easier and more convenient transfer.

The presence of our financial institutions on each other's home turf and abroad also improves the chances our exporters of non-financial products have to increase access to foreign markets. For Canada's part, the first-hand familiarity and understanding of foreign markets possessed by foreign institutions operating here, and by Canadian institutions operating abroad, can play an important role in gaining Canadian firms entry to those markets. And the same applies to American institutions operating in Canada and abroad.

We cannot underestimate either the importance or the mutual benefit our nations stand to gain from stronger international presence in the financial sector. The emerging global economy offers a wealth of new opportunities that our financial institutions can turn to their advantage. Innovation and the ability to adapt are the keys to success in the new era. In recent years, innovation and an ability to adapt have become virtually the trademark of the financial services industry in our respective countries. I am confident, therefore, that not only continued, but also expanded strength of the financial sector in both Canada and the United States is assured.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate Release

Ottawa, May 24 1984
84-83

The Honourable Marc Lalonde, Minister of Finance, announced today that effective June 1, 1984, the rate of return on the last two series of Canada Savings Bonds [Series 37 (1982/83) and Series 38 (1983/84)] will be increased to 10.25 per cent per annum, from 9.25 per cent, for the five-month period ending October 31, 1984. All other terms of Series 37 and Series 38 remain unchanged. The rate of return payable starting November 1, 1984 will be announced when the terms of the new Fall series are made public in October.

With this increase the annual rate of return on these two series for the year which began November 1, 1983 will be 9.66 per cent - interest at the rate of 9.25 per cent per annum for the initial seven months and 10.25 per cent for the remaining five months.

Mr. Lalonde said that this new attractive rate will help restore the competitive position of these two series and takes into account recent changes in rates payable on short term savings instruments. He emphasized that this increase reflects the government's continuing commitment to ensure that over time investors holding Canada Savings Bonds receive a fair rate of return.

Payment of the higher return on Series 37 and Series 38 will vary according to the type of bond held.

> Regular Interest Bonds will now earn 9.25 per cent per annum for the seven-month period beginning November 1, 1983 and 10.25 per cent per annum for the five-month period beginning June 1, 1984. As a result, holders of Regular Interest Bonds will receive an annual interest payment of $96.67 per $1,000 bond on November 1, 1984.

Ottawa, Canada K1A 0G5
613 992-1573

For Compound Interest Bonds, regular annual interest now accumulates at 9.25 per cent per annum for the seven-month period beginning November 1, 1983 and 10.25 per cent per annum for the five-month period beginning June 1, 1984. In addition, for Series 37 interest will compound at the rate of 9.25 per cent per annum for the seven months starting November 1, 1983 and 10.25 per cent per annum for the five months starting June 1, 1984. As a result, a $1,000 Compound Interest Bond of these series will now have the following values:

	Series 37 (1982/83)	Series 38 (1983/84)
November 1, 1984	$1,228.27	$1,096.67
November 1, 1985	1,332.67	1,173.43
November 1, 1986	1,445.95	1,255.57
November 1, 1987	1,568.85	1,343.46
November 1, 1988	1,702.20	1,437.51
November 1, 1989	1,846.89	1,538.13
November 1, 1990	-	1,645.80

There are no changes to the other outstanding unmatured series. These bonds continue to earn interest at the rate of 10.50 per cent per annum for the year ending October 31, 1984 and the rate of 10.50 per cent is also the minimum rate for subsequent years to maturity.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, May 24, 1984
84-85

FEDERAL PAYMENTS TO QUEBEC TO INCREASE THIS YEAR

The Honourable Marc Lalonde, Minister of Finance, said today federal cash payments to Quebec for the current fiscal year will total nearly $5.9 billion, more that $220 million higher than the payments for 1983-84.

He rejected the claim by Quebec Finance Minister Jacques Parizeau that federal transfers to Quebec will decline by $100 million this year. The assertion was made in the Quebec budget speech on Tuesday night.

Mr. Lalonde pointed out that during 1983-84 Quebec received $334 million in upward adjustments to transfer payments that had been made in previous years. The adjustments, based on data that only became available in 1983-84, were completely unrelated to the transfer payments made for 1983-84.

"Mr. Parizeau has resorted to some strange arithmetic to come up with his claim that Quebec will receive lower federal transfers for this year than it did for last year," Mr. Lalonde said. "In fact, cash payments alone are higher by $220 million and Mr. Parizeau's own budget documents show the federal government will provide 28 per cent of Quebec revenues in this fiscal year."

The largest component of cash transfers to Quebec is the federal fiscal equalization payment. This will exceed $3 billion for this fiscal year, double the amount of just six years ago. The Quebec share of total equalization outlays by the federal government since a new formula was adopted in 1982 has been 57 per cent, the highest level it has ever reached.

"Given these facts, it is hardly credible for Mr. Parizeau to talk about a federal plot to destabilize Quebec finances," Mr. Lalonde said.

Reference: Frank Gregg
(613) 992-1731

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Department of Finance Canada

Ministère des Finances Canada

Release

Communiqué

Release at 1130 Hours EDT

Ottawa, May 29, 1984

84-88

Speaking Notes for
The Honourable Roy MacLaren
Minister of State for Finance
To the Canadian Health and Life
Insurance Association,
Toronto, May 29, 1984

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Thank you. It is my pleasure to be here today and to speak to you on a matter which is of great interest to all of us. I refer to changes in our financial services industry and its regulatory structure. This subject has received wide discussion in the recent past, both at meetings such as this where concerned industry professionals gather, and in the media. Briefs have been submitted to the federal and provincial governments. As well, numerous individuals have written to make their personal views known. It is fair to say that changes in the financial sector and regulatory reform are now more prominent than perhaps they have been at any time since the dramatic financial developments of the 1930s.

As you are all aware, some months ago I invited a number of people, drawn primarily from the financial industry, to join an advisory committee to provide ideas and information. It is an informal group, not of course intended to frame public policy, but to debate and synthesize current opinion and to sort out some of the thorny issues. With such knowledgeable people participating, the issues confronting both the financial institutions and the policy-makers are getting a thorough airing.

During the past few months, I have had the benefit of these discussions and have been impressed both by the remarkable scope of the changes which have been envisaged by some and also by the difficulties and complexities of the issues that will have to be dealt with as the process of change unfolds. I would like to touch on some of these matters in my remarks today. In considering changes to the legislative and regulatory structure within which the financial industry operates, the views of all segments of the industry will, of course, be given close scrutiny. In this regard, your Association has submitted a challenging brief with respect to federal insurance legislation. I should also like today to address some of the points raised in that brief.

Before responding to it specifically, however, let me speak to several more general propositions. For one thing, all of us are seeing financial institutions these days from a new perspective. Perceptions have altered and while the changes may be hard to describe, they're nonetheless real. Old stereotypes about financial institutions are being eroded as new ideas gain force. And those new ideas will be given full consideration in the coming months as changes are considered. I believe I can say with confidence that we will not be hide-bound by the past.

One of the most important of the new perceptions, and one with which I think most of you would agree, is that one sector cannot be regulated in isolation from the others. In our complex system, the various types of financial institutions are too interdependent for unrelated and unco-ordinated regulation. It was once possible at least to contemplate regulatory changes on an institution-by-institution basis. This is not the case any longer.

Finally, the political will to go forward with regulatory changes is there. This is a point on which all sides agree.

The issue of regulatory change is sufficiently complex that it may be useful to outline the general framework in which public policy operates so that some of the issues are made clearer. As we are all aware, financial institutions are perceived as being much more closely supervised and regulated than any other private sector corporations. This is an accurate perception as, over time, a complex regulatory structure has developed, reflecting both the central role of the financial sector and its unique position of trust in handling large amounts of money belonging to the general public.

Initially, the focus of public policy was almost exclusively on avoiding the difficulties associated with the failure of a financial institution -- or worse -- the yet more serious implications arising from instability of the financial system that could result from a series of failures. In seeking to prevent failures, public policy has attempted to control the degree of risk-taking by institutions and to prevent fraudulent behaviour. To this end, the legislative and regulatory structure has tended to focus on limits on borrowing and lending powers in the

case of deposit-taking institutions and on investments and actuarial reserves in the case of life insurance companies. In addition, detailed operating procedures were prescribed.

For a number of reasons, including the quality of supervision, widespread failures in the financial sector have been avoided. Moreover, the development of more sophisticated financial markets has undoubtedly reduced the need for many of the more restrictive provisions in the legislation as the capacity of institutions to weather short-term disturbances has improved.

While solvency remains the primary concern of public policy, a number of other concerns have become increasingly prominent in recent decades. These include competition and efficiency in the financial system, the potential conflicts of interest that are implicit in various combinations of financial activities, and the role of foreign-controlled institutions.

Virtually all legislative changes since the report of the Porter Commission in 1964 have had increased competition as one of their key objectives. In most instances, this has involved the removal of operating and liquidity constraints that were deemed no longer necessary for achieving objectives relating to solvency of institutions and the protection of the public. This trend was reflected, for example, in the amendments to the life insurance legislation that took place in 1965, 1970 and 1977. Life insurance companies were authorized to establish segregated funds and mutual funds to enable them to compete more effectively for the savings dollar. Rules regarding investments were relaxed. There was a significant easing of the requirements concerning the calculation of actuarial reserves which resulted in considerable surplus relief. These changes allowed life insurance companies to grow at a faster rate and to compete more vigorously than would have otherwise been possible.

Clearly competition is a good thing, for savers, for borrowers, and for the economy in general. The legislative structure should make every effort to permit institutions to compete as freely as possible. The one caveat that must apply, however, is that the other public policy objectives must also receive full consideration.

These other objectives are not always compatible and the criteria favouring one over another are not always clear. Conflict of interest, for example, is often a difficult concept. Moreover, the implications of a potential conflict are not always self-evident. There are two main public policy concerns raised by conflicts of interest: to minimize economic inefficiencies in the allocation of scarce funds among borrowers and to maintain public confidence in the financial system by providing assurances that abuses will be controlled. In the latter instance, it is as important that the system be perceived to function fairly as it is that it actually does.

Potential conflicts of interest exist in a variety of situations. However, unlike the situation in regard to a bank where there is clearly a potential conflict of interest between corporate lending and, say, distributing corporate securities, or a trust company, where there is also a potential conflict between fiduciary activities and corporate lending, the potential for conflict of interest in the various activities traditionally undertaken by a life insurance company is not as great. Nevertheless, there are some. For example, given the recent problems in the trust and loan industry, most persons recognize the problems that can arise when a shareholder seeks to invest policyholders' money in projects in which he or she has a financial interest. A decision whether to allocate a specific investment to the company's general fund or to one of its segregated funds can also involve a potential conflict of interest. Finally, if life insurance company investments were to be specifically allocated between the participating policyholders' fund and the non-participating policyholders' fund, we can also envisage a potential conflict of interest, particularly in a stock company.

Judgements must often be made to determine which is worse -- to live with the conflict of interest or to eliminate the potential for that conflict but thereby also reducing competition or the efficiency of the regulated company. There are some cases where it is reasonably clear -- most Canadians, for example, would not be comfortable with having their life savings invested in a gold mine owned by their financial institution. There are other cases where there may be a potential conflict of interest which may not matter very much or which cannot be resolved without inordinate costs. An example of this latter type of conflict is that faced by any institution which has company funds and also manages funds for others, such as the life insurance company which also manages a segregated fund.

It is impossible to devise a regulatory structure which avoids all conceivable conflicts of interest. It is undoubtedly unproductive to build in constraints on a wide range of the types of conflicts that could arise. However, we cannot ignore the potential for conflict of interest in re-examining our regulatory structure.

The question of foreign ownership in the financial sector is somewhat different. There is a range of opinion regarding the net benefits of permitting increased foreign ownership. Increased foreign participation has a clear potential for increasing competition. It also has rather less tangible costs associated with giving up some degree of control over a key sector that has traditionally been under Canadian control. As always, there is a middle ground, and one's position will reflect a number of factors, particularly one's views on foreign ownership in general.

In the case of the life insurance industry, non-residents have been active in Canada since before Confederation. Action was taken in the 1960s to prevent foreign takeovers of Canadian-controlled companies, but non-residents continue to have freedom of access to the Canadian market either on a branch basis or through a Canadian subsidiary. There is little doubt that the non-resident involvement has created a more active and competitive market which has worked to the advantage of the consumers. And Canadian-controlled companies have continued to prosper and survive. Indeed, it may well be that the Canadian life insurance industry should be regarded as a model of the benefits that can be derived when non-residents are given freedom of access to the Canadian market in circumstances where some controls are in place to preserve some measure of Canadian control.

Bearing the general policy issues in mind, I should like now to address some of the issues raised in your association's brief on changes to federal insurance legislation. The brief, which is comprehensive and well presented, covers four main subjects: extended powers, corporate governance, investment matters, and general amendments.

While I cannot today be as specific as I might wish to be with respect to the nature of extended powers that might be contained in any new legislation, I should like to note that I sympathize with your industry's desire to expand its areas of activity in the financial services area. The life insurance industry has played a vital role in enabling Canadians to provide and plan for their own financial security. Regulatory barriers should not diminish its competitive possibilities of continuing to do so.

With the exception of some limited activities that are closely related to the life insurance business, the industry is proposing that it be permitted to expand its activities in the financial services sector through associated or subsidiary companies. The brief does not make it clear what exactly non-insurance aspects of the financial services sector the life insurance industry has in mind for its proposed subsidiary operations. One important area that many of you have in mind is that of selling short-term debt instruments and perhaps even accepting deposits. Indeed, many of the short- term deferred annuity contracts currently being sold by life insurance companies are almost identical, from a contractual benefit point of view, to term deposit instruments offered by trust and loan companies.

This type of development raises a number of important issues for the degree of regulation that is both desirable and possible. For example, over the years, we have come to understand how to regulate deposit-taking institutions and insurance companies when these are separate entities. If these activities are combined within one corporation it is not immediately clear that the regulatory problems would still be the same. In a subsidiary structure, with no interaction among the component firms, the situation would of course be the same as is currently the case. However, if no interaction is envisaged, it is not clear what are the benefits to the expanded powers which corporations are seeking. If there is some degree of interaction among component firms, then some regulatory problems would clearly seem to arise.

For life insurance companies, the development of subsidiaries raises the question of just how much of the money provided by policyholders should be permitted to be invested in new business activities. I am glad that the

Association has addressed this issue. Clearly from the point of view of solvency and, in the case of participating policies, dividend expectations, there needs to be some limit on the amount of policyholders' funds that are used to develop new business activities. This is an issue that will certainly continue to have to be discussed during the preparation of new legislation.

Another example of the kind of problems thrown up by these considerations concerns capital and surplus margins. Traditionally, in the trust and loan legislation, capital and surplus margins have been imposed by virtue of limiting the extent of a company's liabilities to a multiple of its capital and surplus. For life insurance companies, there has been no requirement for a minimum level of capital and surplus in terms of any proportion of liability. Instead, it has been assumed there would be reasonable margins in the actuarial liabilities and that companies would keep appropriate margins of capital and surplus. For the property and casualty companies, a different approach was adopted requiring capital and surplus margins of a certain proportion of liabilities. Should there be uniformity to the approach of minimum capital and surplus if the life insurance companies get deeper into the short-term deposit business? Is there any justification for a different approach to capital and supply margins than the one traditionally used for deposit-taking institutions?

Certainly the issue of minimum continuing capital and surplus requirements for life insurance companies will have to be addressed. We do not pretend to have all the answers. It is an issue on which we and the industry will have to work together.

With regard to investments, I agree with your brief that the traditional detailed quality tests may have outlived their usefulness. Certainly the tests were valuable at one time and set standards that have come to be recognized throughout the financial community. However, developments in the financial area are happening so quickly that it is difficult to keep the quality tests up to date. For these reasons I believe that the time has come to drop the detailed quality tests and substitute more control over matters that seem to have given rise to financial problems, such as conflict of interests, excessively large loans or investments and inadequate security for loans, particularly in the mortgage

area. More thought needs to be given as to the exact form these controls should take. As I mentioned in the written response to the brief, neither I nor my officials have all the answers. We want to, and need to, co-operate with the industry in developing a set of appropriate controls for incorporation in any revised legislation.

In regard to corporate governance, as I also indicated in my written response to the brief, most of the proposals put forward seem acceptable to me. Certainly the subject of corporate governance is particularly interesting in the case of life insurance companies because of the existence of participating policyholders and mutual companies. The objective is to be sure that participating policyholders do have the opportunity to express their views on matters of major importance. Policyholder representation on the boards of life insurance companies provides for this to some extent but the present situation may have to be studied carefully to see that the rules are adequate. At the same time, the situation should not be created where procedures are imposed on companies that result in heavy expense without producing any useful results as respects corporation policy.

This raises questions about control of companies, particularly mutual companies which have a large, widespread body of policyholders. While in the past, these questions have not been of great importance, a number of events have taken place that make it of some importance to have a clear definition of control.

The fourth principal topic of the brief related to general amendments and as you know I have already responded positively to most of the suggestions put forward.

Two other matters have been recently brought to my attention. One is the issue of the deduction for income tax purposes by life insurers of reserves for incurred but not reported death claims (IBNRs). I have taken a direct interest in this matter and have asked officials of the Department of Finance to examine this issue and collaborate closely with Revenue officials so as to resolve this matter appropriately and promptly. In tax policy terms, there is no objection to, and indeed it is the intent that, reasonable reserve deductions be allowed in respect of IBNRs. I am informed that positive discussions are currently underway and I am optimistic that this matter will soon be resolved.

The second matter relates to the power of federally incorporated companies to carry on, either directly or through a subsidiary, any business that is reasonably ancillary to the business of insurance. The legislation requires that a company obtain the Minister's prior approval of any ancillary activity it wishes to undertake. Recently, the Association provided me with a list of some 13 such activities for approval. In many of these cases, designation as ancillary businesses would be quite appropriate. However, in a few cases, such as the business of being a trust company or a securities broker and investment firm, such designation would, as I am sure you are all aware, represent major policy decisions which would have repercussions throughout the financial industry. For that reason, in cases of this nature, such designation would be inappropriate at this time. I will be communicating with the Association on these points in more detail in the very near future.

The life insurance industry is, of course, not the only industry seeking changes to the legislative structure governing financial institutions. Most of the major participants are seeking new opportunities while attempting to preserve some of their existing domain. Thus, we see conflicting pressures, as some institutions press for extended powers while others express concern about radical changes to a system that has worked well. At the same time, while there is a general acknowledgement that there is a need to co-ordinate legislative change, institutions are understandably unhappy at the delays their legislation is facing.

I am eager to move ahead as quickly as possible. I want you to know that the worst fears about the tardiness of regulatory reform as expressed in your Association's brief should be dispelled. The need for timeliness is recognized. Moreover, the situation where some institutions have their legislation revised and others lag far far behind must not be allowed to repeat itself. The need for periodic and comprehensive review is evident. We must respond to that need. It is my own conviction that all major pieces of financial institutions legislation should be reviewed on a simultaneous basis, perhaps at ten-year intervals as is done with the Bank Act. Provision ought to be made for equitable and consistent treatment of all institutions where appropriate.

There is a wide range of structures for the financial system that could be put on the table at this time. It is possible that some structures will be more conducive to competition than others. It is also possible that some will introduce a greater number of conflicts of interest or entail greater solvency risks. It is possible, but not at all clear at this stage, that there may be a system which would constitute the best of all worlds.

The system that we have, problems and all, has performed well. On the other hand, an ideal system that we might conceptualize could possibly involve significant changes, with potentially large adjustment costs both to private financial institutions and to the regulatory structure. The costs and benefits of various changes would have to be evaluated before major changes are made. However, at least in the initial stages of our inquiry, we should not timidly limit our range of thinking. To do so would bespeak a bankruptcy of ideas and a lack of courage. Moreover, it could condemn us to facing the same problems repeatedly. In this respect, the bold thinking in your Association's brief is to be commended.

We have a window of opportunity in front of us. Let us take advantage of it. Let us be cognizant of, and wary of, the dangers of making radical changes or hasty and unconsidered decisions. Let us also, however, note the dangers of not being bold enough to face up to the problems squarely and to open new opportunities for Canadians.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 2030 hrs. EDT

Ottawa, May 31, 1984

84-89

Notes for an address
by the Honourable Marc Lalonde
Minister of Finance
to the Canadian Shipbuilding and Ship Repairing Association
Quebec City
May 31, 1984

CHECK AGAINST DELIVERY

I am pleased to address this important national organization representing one of Canada's most basic industries. Your activities have helped to ensure that the government and people of Canada are well aware of the contribution that your industry makes to the economy. You might say that those of us involved in steering the ship of state are kept fully informed about the state of shipbuilding.

I can assure you that the government is deeply concerned about the current situation in the shipbuilding industry. The dramatic downturn in the international economy has left a legacy of overcapacity in world shipbuilding which will take time to eliminate. It will also require a redoubling of your efforts to improve competitiveness and meet the best from around the world in a continuing tough battle for markets.

Our concern has taken the form of numerous measures to assist the industry in Canada through this difficult period. As a number of other federal government departments are well represented with speakers at this meeting, I will not review in detail the steps that have been taken to help. But I would like to outline the scope of our measures to underline the government's commitment to your industry.

As you know, a number of customs tariff changes were made early in 1983 to promote industrial and employment opportunities in the industry. These actions were taken to address the serious competitive problems being faced by Canada's shipyards.

A substantially increased level of activity in the East Coast offshore has been brought about largely by the existence of grants under the Petroleum Incentives Program. As a result, we are moving forward toward the proven existence of the commercial offshore resource base which would provide the foundation for a stable and sustainable development of Canadian shipbuilding capacity.

There are significant new opportunities here for Canadian industry. Of course, we would all like to see 100 per cent of the work associated with these ventures going to Canadian companies and Canadian shipyards. But we must recognize that Canada, as a major trading nation, is a signatory to the General Agreement on Tariffs and Trade which calls for no less favourable access to these opportunities by our trading partners. And that means that your industry must continue to operate in the front lines of international competition.

Every effort is made, however, through the review procedures of the Canada Oil and Gas Lands Administration in collaboration with the Office of Industrial Benefits to ensure that Canadian workers and suppliers are given a full and fair opportunity to share in the benefits that development brings. In addition, the government is helping Canadian companies get the development support they need to be in a better position to compete for offshore drilling and supply boat business.

By way of direct procurement action, the government has moved on several fronts to support your industry now and in the coming years.

Under the Special Recovery Capital Projects Program announced in my April, 1983 budget, we launched a $700 million Coast Guard vessel acquisition and refurbishment program. A number of contracts have been awarded for new icebreakers and a variety of other vessels and for modernization work. A contract for a type 1200 icebreaker was announced just last week. It is estimated that over the next three years, the program will generate employment, direct and indirect, of some 20,000 person years in shipyards across Canada.

In June, 1983, the Government awarded the $2.4 billion Canadian Patrol Frigate (CPF) prime contract to Saint John Shipbuilding and Dry Dock in New Brunswick, with work on three frigates to be undertaken in Saint John and another three by Marine Industries here in Sorel, Quebec. While this is only the first phase of the Department of National Defence's 24-vessel naval modernization program, this program alone will generate an estimated 30,000 person years of employment over the next eight years. Equally important, as a result of the CPF Project, the Canadian shipbuilding industry will be better equipped to handle the future requirements of the Canadian Forces.

But now I am in danger of breaking my promise not to go into detail about government support for your industry. So let me just say that I am pleased to note that in your industry's recent 1983 Annual Statistical Report, your president, Henry Walsh, described government programs as having given the industry "a basis for survival".

I believe it is a tribute to the talent and determination of your industry that you have managed to weather these difficult times as well as you have. I share the view that as the world economy recovers, the shipbuilding industry's order books will improve. And I reaffirm my commitment to continued co-operative action to ensure that your industry will be in a position to prosper in the more interdependent and competitive world trading environment that lies ahead. I believe Canada works best when Canadians work together -- management, labour and government.

In the time available to me today, I want to focus on some of the basic economic realities that will help determine the success that your industry and all other Canadian industries can hope to achieve in the years ahead. I noted that a pick-up in the world economy can be expected to help the shipbuilding industry in Canada. But that is not to suggest that Canada can afford to sit back and wait for good things to happen elsewhere. It's Canada's job, and nobody else's, to make sure that our own economic performance is up to par. And we have to recognize that the success of shipbuilding or any other industry in Canada ultimately depends on the strength of the Canadian economy.

Bringing our costs under control was and is fundamental to the challenge of building economic strength. The success of the 6&5 Program, founded firmly on co-operation among the major partners of the Canadian economy, has been particularly important to your industry because of the intense competition you face from other countries.

I believe we can continue to do well in the battle against inflation. We will have to succeed against some fundamental economic forces that could push inflation rates higher. And we must also contend with the defeatism of those, particularly in the political arena, who greet each little bump in the inflation rate with dire predictions of inflation soaring once again.

This tendency was well illustrated -- or perhaps I should say badly illustrated -- when April's Consumer Price Index figures were announced. While the inflation rate increased from 4.7 to 4.9 per cent on a year-over-year basis, the increase in April was only 0.2 per cent or about 2.5 per cent at annual rates. But you could never have guessed it from the reaction of some the government's regular critics. It was if the flood-gates of inflation had opened wide. To the extent that inflationary expectations themselves fuel future inflation, it seems that some Canadians are determined to do just that.

A similar pattern has been established in relation to the various monthly indicators of economic activity. Any pause in economic statistics is cause for unbounded gloom. The behaviour of some in the political arena in this regard most closely resembles that of a fanatical undertaker who refuses to let the lack of a corpse interfere with the funeral he has planned.

We should have long since learned not to be spooked by the absence of smooth, unbroken lines of growth on the economic charts -- because in the real world no economy behaves in such an idealized way.

In my budget, I projected that growth in 1984 would average about one per cent per quarter, or roughly the pace established in the last quarter of 1983. While there is no doubt that a continued rise in United States interest rates would cloud that outlook, there is thus far no reason to discard the budget projection. Recently, the private sector forecaster, Data Resources of Canada, concluded that first quarter growth is in the range I have noted. Their review also disputes the interpretation that the statistical indicators show the economy in trouble. And they note the danger posed by undue gloom in the following words: "The credibility extended to this pessimistic view in many circles could make such a result self-fulfilling".

That's a point I have made repeatedly in my time as Minister of Finance. Indeed, it is sometimes said that economic policy in the 1980s has become almost a branch of another of the social sciences -- psychology. What people believe is going to happen is clearly crucial to determining what actually does happen. This is why it is important for Canadians to take a balanced view of their economic prospects. And that includes giving equal time to good news such as

the fact that Canada has moved up from sixth to fourth place in the annual rankings of gross domestic product per capita in the 24 member nations of the OECD.

A balanced outlook is particularly important for the maintenance of consumer spending at a pace consistent with an improving economy. And it is even more crucial to building the kind of investment revival that holds the key to both a solid economic recovery and to the longer term hope for continued economic expansion.

Indeed, if there is one thing I have emphasized more than anything else in my budgetary policies, it is the need to stimulate investment to develop the basic economic strength of Canada. Toward this goal, we have invested directly through Special Recovery Projects, as I have noted in regard to your industry. And we have provided a wide range of improved tax incentives for investment by the private sector. Although private investment has been slow to pick up during the recovery, I remain confident that the pace will quicken soon.

We in this country have an excellent track record of investment to build on. During the past 15 years, for example, no major industrial nation achieved greater business investment as a proportion of GNP than did Canada. During that period, we made productive use of both domestic and foreign capital, and we will continue to do so in future.

Yet, I keep hearing from some sources that foreign investment in Canada virtually disappeared many years ago in response to the establishment of the Foreign Investment Review Agency, the National Energy Program and a supposedly official policy of unfriendliness to foreign investors. That is nonsense. The fact is that the book value of foreign direct investment in Canada, including retained earnings, has increased steadily over the years to a level of more than $72 billion by the end of 1983. That's up from about $26 billion in 1970. Retained earnings, which accounted for much of the increase, are not included in the balance of payments account. Flows of direct foreign investment, which are included, have nonetheless been positive in 11 of the 14 years in that period. In the three years in which the flow was negative -- 1976, 1981 and 1982 -- the outflow was primarily associated with the acquisition by Canadians of foreign-owned assets in Canada.

Canada remains one of the most hospitable places in the world for foreign investors to put their money, and a recent survey by the Conference Board suggests that investors themselves recognize this.

The record shows, for example, that Canada enjoyed some excellent years of investment by Canadians and foreign investors alike when FIRA was in existence. Those who oppose FIRA on ideological grounds have found it convenient to attribute the effects of the worldwide economic recession to FIRA, just as those who dislike the NEP have blamed it for everything but the recent series of attacks on oil tankers in the Middle East. And I wouldn't be surprised to hear those added to the list of NEP sins before long.

We have not been insensitive to issues raised about FIRA and the NEP. The government has taken a flexible approach from the beginning, balancing desirable national objectives with the legitimate concerns of our trading and investing partners. In contrast to many other countries where a maze of barriers to new foreign investment is woven into the system, FIRA represents a "one-window" approach which assists and simplifies the process for investors. As for the NEP, it has provided for a major continuing role for foreign investors on terms that compare well with any in the world.

Only those who prefer sloganeering and scapegoating to a real understanding of investment flows and capital markets have continued to describe FIRA and the NEP as unfriendly to foreign investment.

My friends in the Conservative party have talked a great deal about FIRA, the NEP and the importance of investment in Canada. In contrast to the obsessively pessimistic approach they have taken to most economic issues, they have been telling us that a virtual tidal wave of foreign investment is waiting to flood into this country and solve our economic problems.

I noted earlier that economics is considered by some to be a branch of psychology. What we see here are symptoms that fall more specifically into the field of psychiatry. If there is a political version of the manic-depressive syndrome, we have seen it exhibited in a spectacular way in these political gyrations from bouts of extreme economic pessimism to supreme optimism.

Allow me to quote some remarks of a prominent political personage who, if this were not a non-partisan speech, I could identify as the Leader of the Opposition. In an interview in the Financial Post on March 24, he said that as soon as the television news confirms, and I quote, "that the Tories have formed a majority government, investment is going to flow into this country".

Not the day after, or the week after. The same night. Frankly, I am concerned about this...no, not about the congestion at the entry points along the border when all those foreign investors get caught in the traffic jam of the century. I am worried about the stability of those who can sustain such a delusion of easy-does-it economic success while simultaneously telling Canadians that the economy is a hopeless case.

And this from someone who is quoted as saying, "It's difficult to articulate the remarkable impact of that intangible called confidence".

Let us be clear: Foreign investment has created jobs in Canada and will continue to do so in future. But let us also be realistic. It is fatuous to believe that Canada's economic problems will be solved by foreign investors if only we keep saying that it's just a matter of making them feel welcome. Canada has welcomed foreign investors as fully as any country in the world, and the returns on their investments over the years have been equal to, or better than, those in any other country. Canada has been a good place to invest and will, I believe, be a better place in future.

While we're being realistic, let's face the hard fact that one of the most important kinds of investment in Canada is investment in research and development. It's the key to new products and new jobs. R&D in Canada has historically lagged behind that of other countries partly because of the high level of foreign ownership of Canadian industries. Branch-plant subsidiaries of foreign companies have not on the whole been encouraged by their parents to spend heavily on R&D, and this has had a significant effect on Canada's economic performance in this regard.

Furthermore, a rising level of foreign investment, while it would bring undoubted benefits, would also add over time to the outflow of dividends and a variety of intercorporate transfers. In 1983, for example, dividends paid to non-residents amounted to $2.9 billion. The balance of payments account of course has fundamental importance for exchange rates in this country.

I could go on this vein, but I do not want to convey the impression that the negatives associated with a high level of foreign investment invariably outweigh the positives or that foreign investment does not have a major role to play in Canada's economic development.

But let us not romanticize the foreign investor as a sort of knight in shining armour coming to rescue Canada from economic distress. Foreign investors put money into ventures for the same reason that Canadians do -- in the hope of earning a good return on their money.

My approach has been, and continues to be, to encourage Canadians to play a stronger role in direct investment in their own economic future. Canadians have not been the most aggressive investors, the best risk-takers, over the years. But we are getting better, and in many cases we are getting better by learning from, and sharing risks with, foreign investors in partnership ventures.

I'm not faulting my critics for emphasizing the importance of foreign investment. I just wish they would give equal time to the necessity of encouraging Canadian investors in Canada. The energy field provides an excellent example of just such encouragement. I have every confidence that we will continue to develop this capacity in the years ahead.

I urge all Canadians to take a realistic approach to the economic future. You in the shipbuilding and ship repairing industry have provided a good example in this regard. With the help of government, you are weathering some difficult years while building your capacity to make gains in the better times ahead.

The key to economic success is not held by Canadian business alone, labour alone nor government alone. The same must be said of those mythical legions of foreign investors who are supposed to come galloping across the border when there is a magical restoration of confidence.

Let me emphasize the point: There is a place for fairy tales in every culture, but it's <u>not</u> in the middle of one of the most important economic debates the country will ever have.

All of us -- and that includes foreign investors -- working together, building strength on economic strength, correcting our weaknesses -- that's how we will move ahead and create the jobs we need. We have done well to date and we can do much better if we continue to invest our money, our talent and our faith in the future of this country in a spirit of determination and realism.

CH1
FN

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 1230 Hrs EDT

Ottawa, June 5, 1984

84-94

Notes for an address
by the Honourable Roy MacLaren,
Minister of State for Finance,
to the Association of Consulting
Engineers of Canada
Château Laurier
Ottawa
June 5, 1984

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Let me say, first, that I am delighted to be here today at this the annual meeting of the Association of Consulting Engineers of Canada. I have enjoyed our previous meetings dating back to my parliamentary responsibilities with the Department of Energy. In those meetings, I particularly valued your association's clear views and experience. I know that you make an important contribution to the public policy-making process and will continue to do so. Your recent report on your industry, "Realizing the Potential", was comprehensive, thorough and useful, and sets a standard for other interest groups to emulate. And I want to assure you that the government is encouraged by the co-operation that characterizes our ongoing relationship.

As an historian, I find it apt that you should be holding your convention on this site, overlooking one of the earliest and most remarkable engineering projects in Canadian history. The Rideau Canal and its locks still stand as an impressive and functional monument to the engineering profession in general and to Colonel John By, the engineer, in particular. By must have stood on this very ground many times, watching his plans take shape. And few people today can survey his achievement without amazement at the man's vision, ingenuity, practical competence and zealous determination which enabled him to surmount a formidable challenge -- and indeed the lack of recognition which he was subsequently accorded.

Engineering skills have come a long way since Colonel By. Yet today's challenges are as great as ever. They require no less a degree of ingenuity and vision than in 1826.

As Minister of State for Finance, my efforts these days are devoted to an engineering project of a different sort -- the engineering of economic growth in Canada and the building of a solid national economy. Such an economy must be capable of excelling in the competitive new global economy that is now emerging. Today I should like to say a few words about the progress our economy is making and about some of the challenges we face.

Since the recovery began, Canada's competitive position has been improving. No reason is more fundamental for this than the dramatic decline in our rate of inflation. The government's two-year 6&5 program has been instrumental in bringing down inflation to a rate of 4.9 per cent in April. In a matter of three weeks we shall mark the second anniversary of 6&5. Looking back, there can be little question that Canadians supported the restraint program and that this was a turning point for our economy. We pulled ourselves out of a recessionary nose-dive and climbed back toward a more stable economic course.

I can well recall the multitude who scoffed at our ambitious objectives for lower inflation when we introduced the 6&5 program in June of 1982. That was when the inflation rate was well into double digits. Yet in less than a year it was half that. And with the second anniversary of the program just around the corner, we are right on target in our second-year goal of five-per cent inflation.

Such was the program's success that Canadians have benefited from a relatively low inflation rate for more than a year. This has meant that Canadians have not had to think in terms of large wage settlements in an attempt to maintain their living standards. And the no-win situation of wages racing after spiraling prices -- which was eating away at national morale only two years ago -- has been largely corrected and controlled. Canadians now enjoy a relatively stable domestic economic environment in which economic growth is again being generated -- and at a sustainable pace.

A period of growth has paralleled the dramatic fall in inflation. From the fourth quarter of 1982 to the fourth quarter of 1983, our real GNP rose 6.6 per cent. That exceptionally rapid growth gave way to a more moderate pace at the close of 1983 that has continued in 1984. With all the good features of a distance runner rather than a sprinter, Canada's economic growth rate is now more realistically sustainable over the long haul.

Another area of our economy where we have engineered considerable success is in exports. Given that about 30 per cent of the economic wealth Canada generates -- or 30 cents of every dollar earned by Canadians -- derives from our sales abroad, we obviously have a lot at stake in the race for world

markets. The competition there is getting tougher. We have to be increasingly aggressive and resourceful if we are to avoid being shouldered out of the running. Our trade figures speak for our success. In 1983, Canada's merchandise trade surplus was at a near record $18 billion. We have started off 1984 in good form with a first quarter average surplus of nearly $17 billion at annual rates.

In the competitive international marketplace, success does not simply happen. To help make it happen, the government has added supportive measures in the last two budgets. The Export Financing Fund, established in the 1983 budget, is helping small and large businesses to seek export opportunities and win contracts abroad. The budget of last February bolstered this support in a way that will further enable Canadian firms to take advantage of export opportunities in developing countries while Canada fulfills its commitment to international development.

Improved foreign trade not only means better incomes for Canadians, but also more jobs. Indeed, since the recovery began, Canada's job creation record has been little short of exceptional. Almost 400,000 new jobs have been created since then by the combined forces of economic resurgence and government job creation programs. April alone recorded some 25,000 additional names on Canada's payrolls.

The auspicious Canadian performance in creating jobs coexists, paradoxically, with the fact that unemployment levels have been stubbornly slow to fall. Much of the explanation for this, of course, is the growing number of Canadians entering the labour force, prompted largely by the brighter economic picture and employment prospects. Creating jobs for Canadians who want to work and bringing down unemployment are the two sides of the government's primary economic concern. That we are in fact succeeding in creating additional jobs should be a cause for encouragement as we work to make inroads into the still stubborn unemployment rate. It should be remembered, however, that the economy is like a complex, intricately-connected piece of machinery operating in a delicate equilibrium. No problem, including unemployment, is solved simply by pulling a single lever.

But it is clear that the overall trend is toward sustained growth. The government's projections for 1984, and those of many independent forecasters, are for the nation's real economic growth to continue at the more moderate pace of the fourth quarter of 1983. And Canada's prospects stack up favourably by international standards. For example, the World Economic Outlook of the International Monetary Fund expects our economic performance in 1984 to be significantly better than the average for the major industrial nations in a number of important categories. These include increases in real GNP, employment and exports. The most recent OECD Economic Outlook held a similar view of Canada's prospects.

The life-blood of national economic growth is investment. Engineering long-term expansion of the economy and creating new jobs, including jobs for your profession, depends crucially on public investments in the basic capital facilities that support economic activity. In particular, these investments give vital support for the improved productivity and international competitiveness essential to creating additional jobs and providing Canadians with higher real incomes.

The government's major initiative in mobilizing capital resources for economic recovery has been the four-year Special Recovery Capital Projects. Some of you will be personally familiar with them. The Program was a keystone of the April 1983 budget. 2.4 billion dollars were committed. Hundreds of facilities, buildings and other installations are being renovated, refurbished, improved, or built from the ground up. Construction and procurement planned for later in the decade have been brought foreward from the drawing boards as rapidly as possible. By moving quickly, the government is stimulating the economy, picking up the slack during a period of lower rates of private investment.

All told, there are more than 280 projects, large and small, under the Special Recovery program. Together they represent a major investment in the key sectors of our economy and in all of our regions. Many of them involve consulting engineers in both the design and implementation stages.

The transport sector provides a good example. Transport facilities are being improved to permit more efficient movement of goods and people. Projects include highways improvement, such as the Dempster Highway in the Yukon and Northwest Territories; port expansion and development, such as in Sept-Iles; airport upgrading, such as in Fort McMurray; and rail capacity upgrading, including the railway grade separation project in Kingston. Both the theoretical expertise and practical experience of professional engineers in all areas of specialization are vital to these wide-ranging projects.

This also applies in shipyards in British Columbia, Ontario, Quebec and the Atlantic provinces which are sharing in a major effort to expand the Canadian Coast Guard. New icebreakers are being built, as well as other specialized vessels, projects which will aid in the long-run development of the marine construction industry. They will augment our ability to maintain open shipping lanes in our coastal and northern waterways. But, most important, in a worrisome time of underutilized shipbuilding capacity, they provide now important work for our shipbuilding industry, its engineers and workers.

The specific projects which I have cited are merely illustrative of the broad range of projects now proceeding. And they are proceeding -- with all the haste we can muster. The "fast-tracking" approach, of reducing red tape and procedural delays, has been effective in slicing the time from preliminary project approval to start-up of projects. Indeed, this has already given engineering consultants contracts that would normally have been negotiated some years down the road.

As of this year, one year after the Special Recovery program was announced, over 550 contracts had been awarded for the projects. I don't have to tell you what this means in terms of jobs for consultants and increased economic activity right across the country.

Stepped-up public sector investment must go hand in hand with a revival in business investment on which you, as engineering consultants, and indeed all Canadians depend so much.

Business investment has been slow to recover from the recession. This is not surprising in several respects -- not the least being that investment was so strong for many years prior to the recession. The greater severity of the downturn was harder on consumer demand and on business balance sheets. Consumer demand has, however, now added muscle to the recovery. Balance sheets are improving rapidly and stronger investment will follow. The Special Recovery investment incentives for the private sector continue to make investment attractive and to play a significant role in strengthening the recovery.

In addition to these direct measures to spur business investment, the government is buttressing private sector investment in other important ways. Take, for example, the proposals in the last budget to strengthen our pension system. Private pension funds provide an important source of capital for investment. Currently, more than 80 billion dollars in private pension plans and 25 billion dollars in RRSPs are invested in Canadian stocks and bonds. A substantial part of these assets is invested in equities. The measures announced in February's budget to increase the contribution limits on retirement savings and to make them flexible should result in more than a billion dollars in additional contributions each year. This would augment the 15 billion dollars a year that currently flow into pension funds and RRSPs. The new dollars in savings would be channeled by financial institutions into the underwriting of Canadian securities. And that translates into more dollars for businesses to invest in expanding facilities, building new facilities, undertaking feasibility studies and so on.

The outlook for the years ahead is one of attractive investment opportunities. I am optimistic that we shall see healthy business investment performance, including foreign investment.

A few moments ago I said that investment is the lifeblood of economic growth. Once upon a time strong investment was a certain assurance of our comparative economic advantage in the world and of a prosperous standard of living. The reality of today's global economy, from which no country can isolate itself, is that investment alone conveys no such assurance.

The movement of innovative technology to developing countries, where labour costs are low and investment subsidies attractive, have made a new ballgame of international competitiveness. The pressure of competition has mounted. The name of the game has become productivity.

In a few short years "productivity" has virtually become a cliché, but it is no less important for being so. The challenge to reduce costs and become more productive is more akin to an ultimatum on which economic survival hinges. As a nation, Canada can draw some encouragement from the fact that our productivity has improved of late. By the end of last year our unit labour cost increases had moderated considerably from a year earlier and our productivity increase was the largest since 1976. In the manufacturing sector, productivity was up by about 7 per cent in 1983, the best performance in the last 12 years. Improvements such as these enabled Canada to better its standing in world markets last year and increase our exports by more than 6 per cent.

While these improvements are encouraging, they are not laurels to rest on, coming as they do after several years of weak productivity performance. And there are few in either the public or private sectors who do not believe that we have a long way to go, just to keep up with some of our brave new competitors.

If we are to put our businesses and our workers on a sound competitive footing with other industrialized and industrializing countries, then no priority is greater nor more pressing than our support for innovative technology and for research and development. The opportunities for productive advantage are immense. We only need to remember that new products themselves have been upgraded and the costs lowered simply by improving the design of a silicon chip. Look no further than the common pocket calculator.

The engineering profession itself is central to the application of new technology, concepts and practices to make Canada more competitive and productive. In many respects, being a leader in the application of innovative technology will be as important for Canada as being a major leader in its development. The

specialized knowledge, skills and conceptual experience of the engineering profession put it at the front edge of Canada's application of innovative technology and concepts.

Knowing that innovative technology and R&D are vital does not answer the question of how we should support them so as to optimize the benefits. Throwing money at the problem is not necessarily the answer. Indeed there is evidence from a number of countries suggesting that more generous funding of R&D does not translate into greater national productivity.

In a broad sense, we Canadians are still feeling our way toward a coherent and comprehensive approach to the R&D question. Historically, R&D in Canada has not flourished as it has in some other countries. This owes, in part, to the stultifying impact that a high level of foreign ownership of Canadian industry has had on R&D investment. Head offices abroad have tended not to encourage Canadian subsidiaries to invest in R&D. Canada has been the poorer for it. As a result, both levels of government have had to take a leading role to ensure that we do not become also-rans in the important R&D work leading to new products and processes, new jobs, and stronger economic performance.

The role the government can most effectively perform is helping to create an environment that fosters technological innovation and productivity growth, but which fully recognizes the importance of human development and freedom. Essentially the role is catalytic and supportive.

The government has sponsored a number of initiatives to fulfill this role, but the tax system has been our major policy instrument for the support of research and development. A Canadian Tax Foundation study has described this country's R&D incentives as among the most generous in the industrial world. And that was before they were enriched further in the 1983 budget. These incentives have been designed to help give industry the means to conduct basic research and to invest in more productive equipment.

Many of the innovations which have resulted in major new growth in Canada have originated with small firms or individuals. The small business sector is therefore a good example of where the federal government has provided attractive incentives in the form of lower tax rates and higher investment tax credits on R&D spending.

In the most recent budget, we proposed to simplify the small business tax laws to enable small businesses to operate with a minimum of administrative burden and red tape. This proposal would also ease the tax burden by some $150 million. We see it as another way of encouraging productivity and thus the competitiveness of Canadian small businesses. Time, energy and cost not required by tax forms and tax matters are available for more productive work in a business operation.

Improving productivity is obviously one of the complex challenges in a complex economy. Like employment, it is not simply promoted by the pull of a single lever. It has become patently clear, however, that meeting the productivity challenge will not be accomplished by government acting alone. Only the co-operative effort of the major players in our economy - business, labour and government working together - can engineer the productive improvements and attitudes that Canada will need to excel in a competitive world.

The government has taken an imaginative step to make this happen in its leading support of the Canadian Labour Market and Productivity Centre. The new Centre is bringing together the leaders of business and labour to address vital issues affecting productivity, away from the confrontational atmosphere of the bargaining table. The Centre's board includes 12 representatives of labour and 12 from business, who were appointed just last month.

The work of the Centre represents, I hope, the vanguard of a new era of consultation and co-operation. For we have come to realize that the key to the benefits of new technology and more productive techniques remains a human question. Unless there is greater understanding and co-operation among Canadians, we shall be unable to be a leader internationally. Such increased co-operation has surely been one of the triumphs of the 6&5 program. That is a credo your association puts into practice. And that is surely one of the giant challenges facing the new Labour Market and Productivity Centre. To take a little licence with Shakespeare, our future lies not in our stars, but in ourselves. Together we can make that future a more productive and exciting one.

Department of Finance Canada

Ministère des Finances Canada

Release Communiqué

Immediate release

JUN 27 1984

Ottawa, June 18, 1984
84-101

INCOME TAX NOTICES OF WAYS AND MEANS MOTIONS TABLED

The Honourable Marc Lalonde, Minister of Finance, today tabled revised Notices of Ways and Means Motions relating to income tax changes. These Ways and Means Motions incorporate the tax changes proposed in the February 15, 1984 budget and the proposals for simplifying small business taxation, and also introduce a number of new relieving tax changes.

A draft version of the legislation to implement the budget tax changes was released on April 25, and a number of constructive comments and suggestions have been received from interested parties during the subsequent consultation period.

"I am very pleased with the positive response to the draft amendments made public in April," Mr. Lalonde said. "The comments received have been very helpful in revising this legislation, and I intend to introduce a bill in the House in the very near future to implement the various tax changes."

The Minister highlighted a number of further changes to the administrative provisions of the Income Tax Act. "I believe taxpayers will find these changes are substantial improvements," Mr. Lalonde said. "The amendments reflect the government's willingness to respond to constructive suggestions for changes in the administration of our tax law."

The new administrative changes are as follows:

- The four-year limit on reassessments of tax is being reduced to three years with respect to the 1983 and subsequent taxation years.
- Taxpayers will be permitted to appeal to the Tax Court of Canada or to the Federal Court, without the consent of the Minister of National

Revenue, at any time after 90 days from the filing of a notice of objection instead of the present 180-day waiting period.

- The Tax Court of Canada Act is being modified to give the Court the authority to establish guidelines for the award of costs to appellants with respect to all matters falling under its jurisdiction, including income tax appeals and certain unemployment insurance and Canada Pension Plan issues.

- The new provision to allow taxpayers to revoke reassessment waivers is being extended to allow as well the revocation of waivers filed before February 16, 1984.

- The Minister of National Revenue will be given authority to refund taxes to a taxpayer who has filed a notice of objection where the tax issue in dispute is substantially the same as an issue decided by a Court in favour of another taxpayer.

The Minister noted that he had received a number of representations with respect to the anti-avoidance measure designed to counter the tax reduction and tax deferral opportunities that arise with respect to certain offshore investment funds. These representations indicated a general recognition of the need for this measure but some concerns as to the scope of its operation.

"This is a complicated area of the law and I believe that further consideration needs to be given to the use of more objective safe-haven tests so as to attain a greater degree of certainty as to the application of these rules," Mr. Lalonde said. "Accordingly, I have instructed officials to study the possibility of providing by regulation further exceptions to the application of the rule, such as in cases where there is substantial annual distribution of a fund's income to its holders."

Mr. Lalonde said that after the bill is formally introduced he will release comprehensive technical notes to provide more details concerning its provisions.

Reference:

T.C. Morris
Tax Policy and Legislation Branch
(613) 995-3586

NOTICE OF WAYS AND MEANS MOTION TO AMEND
THE INCOME TAX ACT AND RELATED STATUTES

That it is expedient to amend the Income Tax Act and related statutes and to provide among other things:

Automobile Benefits

(1) That for the 1984 and subsequent taxation years, the amount of the benefit in respect of the operating costs of an automobile provided to an employee or shareholder be allowed to be computed at the rate of 50 per cent of the standby charge in respect of the automobile.

Employee Stock Options

(2) That, where an arm's length employee of a corporation exercises or disposes of an option granted to him after February 15, 1984 to acquire qualifying equity shares of his employer or a related corporation, one half of the resulting benefit included in his income from employment be allowed as a deduction in computing his taxable income provided that the exercise price for the shares is not less than their fair market value at the time the option was granted.

Scientific Research

(3) That for the 1984 and subsequent taxation years, paragraph 12(1)(v) of the Act include a reference to paragraph 37(1)(g) of the Act to ensure that any negative balance in a taxpayer's scientific research expenditure account be brought into income.

Life Insurance Policies and Annuities

(4) That for taxation years commencing after 1982, the provision of the Act allowing a taxpayer to elect to be taxed annually on income accrued on certain annuities and life insurance policies be amended

(a) to clarify that the election is not available to a corporation, partnership, unit trust or any trust of which a corporation or partnership is a beneficiary,

(b) to allow the election to be made for annuities under which payments have commenced, and

(c) to provide that the election cease to apply for prescribed annuity contracts.

Small Business Development Bonds

(5) That for taxation years ending in calendar years commencing after Royal Assent to any measure giving effect to this paragraph, the restriction pertaining to a corporation's cumulative deduction account be removed from the small business development bond provisions of the Act.

Bankers' Acceptances

(6) That for bankers' acceptances drawn after June 1984, funds raised through the sale of such acceptances be treated as borrowed money, so as to permit the provisions of the Act relating to the deductibility of interest and of expenses incurred in the course of borrowing money to apply in respect of such acceptances.

Recovery of Refund Interest

(7) That the provisions of the Act that allow a taxpayer a deduction in respect of certain tax refund interest repaid to the Minister of National Revenue be extended to apply in respect of tax refund interest repaid after April 19, 1983 under a provincial income tax statute.

Injection Substances

(8) That for the 1984 and subsequent taxation years, rules be introduced to allow a deduction for the cost of substances injected to assist in the recovery of petroleum, natural gas or related hydrocarbons and to provide that such substances be treated as inventory having a cost of nil.

Judicial Appointments

(9) That a taxpayer who is federally or provincially appointed a judge in the 1984 or a subsequent taxation year be permitted to elect to defer such portion of the income from his professional practice for a fiscal period commencing before the year and ending in the year as will ensure that his income for the year generally represents 12 months' earnings and the amount so deferred be included in his income for the immediately following year.

Replacement Property Rules

(10) That the replacement property rules be amended to provide that, for a disposition after February 15, 1984 of a former business property that is in part a building and in part land, a taxpayer may elect to reallocate to one part the proceeds of disposition of the other in an amount not exceeding the capital gain on that other part.

Capital Gain Strips

(11) That for transfers of property after 1984 or, if elected, after 1981, the rules relating to divisive corporate reorganizations in paragraph 55(3)(b) of the Act be amended to clarify the existing restrictions on preliminary transactions carried out in contemplation of the reorganization, and that effective after 1981, consequential changes be made to subsection 55(4) of the Act.

Alimony and Maintenance Payments

(12) That the provisions of the Act relating to the deduction and taxation of alimony and maintenance payments be extended to provide that amounts paid after 1983 by a taxpayer in respect of eligible post-separation expenses incurred in the year or a preceding year for the maintenance of a qualifying person or a child of that person who is in the custody of that person be treated as allowances payable on a periodic basis where the court order or written separation agreement under which the amounts were paid so provides and, for this purpose, eligible expenses include medical and education expenses and certain accommodation expenses in respect of the qualifying person's residence.

(13) That for the purpose of the provisions of the Act relating to the deduction and taxation of alimony and maintenance payments, any such payments made after 1983 and before the making of a court order or written separation agreement be deemed to be made pursuant to the order or

agreement where the order or agreement so provides and the payments are made in the year in which such order or agreement was made or in the immediately preceding year.

Depletion Recapture

(14) That paragraph 59(3.3)(a) of the Act

(a) not require any income inclusion in respect of an amount described therein that becomes receivable by a taxpayer after 1983 where the amount would, if incurred as an expense, qualify as a Canadian oil and gas exploration expense (other than such an expense in respect of non-conventional lands, where the amount is receivable by the taxpayer in 1984, or a drilling expense in respect of a qualified tertiary oil recovery project),

(b) require the inclusion in income of 10 per cent of an amount described therein that becomes receivable by a taxpayer in 1984 where the amount would, if incurred as an expense, qualify as a Canadian oil and gas exploration expense in respect of non-conventional lands (other than a drilling expense in respect of a qualified tertiary oil recovery project), and

(c) apply for the 1984 and subsequent taxation years, where an amount becomes receivable by a taxpayer for property or services the cost of which was added in computing the earned depletion base of a person with whom he was not dealing at arm's length and not where an amount becomes receivable by a taxpayer on the disposition of property to a person with whom he was not dealing at arm's length.

(15) That paragraph 59(3.3)(f) of the Act apply after April 19, 1983, where an amount becomes receivable by a taxpayer for property or services the cost of which was added in computing the mining exploration depletion base of a person with whom he was not dealing at arm's length and not where an amount becomes receivable by a taxpayer on the disposition of property to a person with whom he was not dealing at arm's length.

Rollover of Pension Benefits

(16) That the provisions of the Act allowing the tax-free transfer to a registered retirement savings plan or registered pension plan of amounts received from a pension fund or plan be restricted, for transfers after February 15, 1984 in respect of amounts received after that date, to transfers from registered or certain foreign service pension funds or plans.

Moving Expenses

(17) That with respect to relocations within Canada occurring after 1983, the moving expense deduction be extended to individuals who were unemployed immediately before moving to a new employment or business.

Canadian Exploration Expenses

(18) That the provisions of the Act relating to expenses incurred before 1984 in drilling an oil or gas well in Canada that are included in the definition "Canadian exploration expense" be extended to such expenses incurred before 1986.

Elected Value for Farm Transfers

(19) That rules be provided to permit, on the death of a taxpayer after 1983, a transfer of his qualifying farm property, including an interest in a family farm partnership or shares of a family farm corporation, to his child for any value between the cost amount of the property and its fair market value.

Family Farm Holding Corporations

(20) That the provisions of the Act relating to the transfer by a spousal trust of shares of a family farm corporation to a child of the settlor be extended to apply to transfers after May 25, 1978 of shares of a family farm holding corporation.

Transfers to Parents

(21) That where a taxpayer, who has under the special rules relating to inter-generational transfers acquired a farm property, an interest in a family farm partnership or shares of a family farm corporation or of a small business corporation, dies after 1983, the property be permitted to be transferred to a parent of the taxpayer for any value between its cost amount and its fair market value.

Definition of Child

(22) That for the purpose of the provisions of the Act providing for the deferral of tax on transfers of property by a taxpayer to his child, the definition of "child" be amended for transfers after 1983 to include a person who, at any time before he attained the age of 21 years, was in law or in fact in the custody and control of the taxpayer and wholly dependent on him for support.

Leased Farm Property

(23) That farm property transferred after December 31, 1983 that is property leased by an individual to his family farm corporation or to a family farm corporation or partnership of his spouse or child be treated as property used by him in the business of farming for the purposes of the provisions of the Act relating to inter-generational transfers of farm property.

Late-Filed and Amended Elections

(24) That the Minister of National Revenue be permitted after February 15, 1984 to accept an election under section 85, 93, 97 or 98 of the Act after expiry of the late-filing period, or an amended election under those sections, where in his opinion it would be just and equitable to do so and the taxpayer pays a penalty, not exceeding $8,000, with such election.

Transfer of Resource Properties

(25) That subsection 85(1.1) of the Act not apply with respect to dispositions of resource properties after February 15, 1984.

Amalgamations

(26) That for the 1984 and subsequent taxation years, the provisions of the Act relating to amalgamations provide that a new corporation resulting from an amalgamation be allowed to utilize, for the purposes of section 37 and Part VIII of the Act, unused scientific research expenditures made by its predecessor corporations.

Acquisition of Control

(27) That where control of a parent or subsidiary has last been acquired before November 13, 1981 and the subsidiary is subsequently wound up, the deductibility to the parent of any non-capital losses of the subsidiary incurred in taxation years ending before the acquisition of control be limited only by those provisions of the Act governing the deductibility of losses subsequent to acquisitions of control that were in force on November 12, 1981.

Offshore Investment Funds

(28) That an anti-avoidance rule be introduced with effect from January 1, 1985 requiring a taxpayer who has an investment in a taxation year in a non-resident investment fund to include in his income for the year an amount calculated by reference to the designated cost of his investment multiplied by the prescribed rate of interest.

Deduction in Computing Income of a Trust

(29) That the amendment to paragraph 104(6)(b) of the Act that came into force with respect to dispositions occurring after November 12, 1981 not apply in respect of a disposition to a specified tax exempt entity or Her Majesty after that date by a trust created before November 13, 1981.

Trust Resource Income

(30) That for the 1982 and subsequent taxation years, the Act be amended to permit a trust to allocate to its beneficiaries as income an amount not exceeding its Crown royalties and payments under the Petroleum and Gas Revenue Tax Act.

Prohibition on Deduction of Personal Exemptions

(31) That for the 1984 and subsequent taxation years, the provisions of the Act relating to the claiming of personal exemptions by a taxpayer prohibit a taxpayer from claiming a personal exemption in respect of a dependent child for a taxation year where the taxpayer is entitled to a deduction under paragraph 60(c.1) of the Act for the year in respect of a payment made for the maintenance of that child.

Dependent Nieces and Nephews

(32) That for the 1984 and subsequent taxation years, the personal exemption for dependent nieces and nephews be amended to remove the conditions that relate to the status of their parents.

Qualifying Medical Expenses

(33) That for the 1984 and subsequent taxation years, the costs in respect of dogs trained to alert profoundly deaf persons, the cost of hydraulic wheelchair lifts for vehicles as prescribed by a medical practitioner and the cost of cloth diapers or disposable briefs for persons who are incontinent because of illness, injury or affliction qualify for the purposes of the medical expense deduction.

Special Medical Deduction

(34) That for the 1984 and subsequent taxation years, the special deduction allowed under the Act to individuals confined to a bed or wheelchair for a substantial portion of each day for a 12-month period ending in the year be extended to persons who are so confined for a period beginning in the year and continuing to the end of the year and who, in the opinion of a medical practitioner, will be so confined for a 12-month period.

Donation of Real Property

(35) That the provision of the Act permitting a taxpayer to make a charitable gift of real property at less than its fair market value be extended to apply to gifts of Canadian real property made after February 15, 1984 by non-residents to prescribed non-resident charities where the use of that property will be in the Canadian public interest.

Forward Averaging

(36) That for the 1983 and subsequent taxation years, the forward averaging provisions be amended to recognize that the provincial share of an individual's forward averaging tax adjustment will be determined in accordance with the income allocation rules applicable in computing an individual's tax for the year under Part I of the Act.

(37) That for the 1982 and subsequent taxation years, the forward averaging provisions be clarified to ensure that the balance of any accumulated averaging amount that an individual's legal representative has not elected to include in the individual's taxable income for the year of his death be subject to tax under the Act as if 1/3 of such amount were added to his taxable income otherwise determined for each of the three taxation years immediately preceding the year of death.

Overseas Employment Credit

(38) That for the 1984 and subsequent taxation years the amount of an individual's tax otherwise payable as determined otherwise payable as determined under paragraph 122.3(3)(b) of the Act for the purposes of computing his overseas employment tax credit be increased by any amount claimed by him under the federal tax reduction and by any amount of tax deemed to be paid by him in respect of his income earned in the Province of Quebec and be reduced by any additional tax under subsection 120(1) of the Act on his income not earned in a province.

(39) That an individual employed in a business carried on by a resident of Canada for the performance of services under an international development assistance program of the Government of Canada be eligible to claim an overseas employment tax credit on the same basis as other individuals where he commenced employment overseas after 1983 but before 1987 in connection with a contract entered into by his employer before August 16, 1983.

Small Business Deduction

(40) That for taxation years ending in calendar years commencing after Royal Assent to any measure giving effect to this paragraph, the provisions of section 125 of the Act relating to the small business deduction be revised

(a) to repeal the provisions relating to the total business limit and the cumulative deduction account, thereby removing the $1,000,000 income accumulation cap above which a corporation or a group of associated corporations ceases to qualify for the small business deduction,

(b) to repeal the provisions relating to income from a non-qualifying business and to provide that such income is eligible for the 21% small business deduction,

(c) to allow any full-time employee of a personal services business or specified investment business to be included in applying the six full-time employee test which, if satisfied, makes the income from such business eligible for the 21% small business deduction,

(d) to repeal the connected partnership rules and amend the rule designed to prevent the use of multiple partnerships to increase a corporation's small business deduction, and

(e) to provide rules for calculating a corporation's business limit when its taxation year is less than 51 weeks in duration or when it has two or more taxation years ending in the same calendar year and is associated in each of those taxation years with a Canadian-controlled private corporation that has one or more taxation years ending in that calendar year.

Foreign Tax Credit

(41) That in calculating foreign tax credits for the 1984 and subsequent taxation years, taxpayers be allowed to deduct unclaimed foreign business-income taxes paid for the preceding seven and the subsequent three taxation years.

Investment Tax Credit

(42) That for taxation years ending in calendar years that commence after Royal Assent to any measure giving effect to this paragraph, the provisions of the Act relating to the investment tax credit and the refundable investment tax credit be amended to provide that a Canadian-controlled private corporation qualify for

(a) a 35 per cent investment tax credit rate on its qualifying scientific research expenditures for the year, and

(b) the 40 per cent rate of refund in respect of its investment tax credits earned but not claimed in the year

only if the aggregate of the taxable incomes for the year of the corporation and all associated corporations does not exceed the aggregate of their business limits and, in the case of subparagraph (a), only to the extent of the corporation's defined scientific research expenditure limit for the year.

are-Purchase
x Credit

(43) That

(a) effective after April 25, 1984, a trust that is exempt from tax under the Act and a trust governed by an employee benefit plan not be permitted to allocate its share-purchase tax credit,

(b) for the 1982 and subsequent taxation years, the provisions of the Act relating to the share-purchase tax credit be amended to clarify that the unused share-purchase tax credit available to be carried back consists only of that portion of the credits that could not be claimed in the year in which they were earned,

(c) effective after June 1983, the share-purchase tax credits in respect of an issue of shares by a public corporation under a public offering be granted to the first holders of the shares (other than brokers or dealers in securities) instead of to the first registered holders if such treatment is elected by the public corporation, and

(d) for the 1982 and subsequent taxation years, provisions be introduced to clarify that the amount paid for the share-purchase tax credit be treated as part of the cost of the share and not be treated as income to the issuer.

ientific Research
x Credit

(44) That

(a) effective after April 25, 1984, a trust that is exempt from tax under the Act and a trust governed by an employee benefit plan not be permitted to attribute scientific research tax credit to its beneficiaries,

(b) for the 1982 and subsequent taxation years, the provisions of the Act relating to the scientific research tax credit be amended to clarify that the unused scientific research tax credit available to be carried back consists only of that portion of the credits that could not be claimed in the year in which they were earned,

(c) effective after September 1983, the scientific research tax credits in respect of an issue of shares or debt obligations by a public corporation under a public offering be granted to the first holders of the

shares or debts (other than brokers or dealers in securities) instead of the first registered holders if such treatment is elected by the corporation, and

(d) for the 1982 and subsequent taxation years, provisions be introduced to clarify that the amount paid for the scientific research tax credit be treated as part of the cost of the share, debt obligation or right and not be treated as income of the issuer or grantor.

Co-operative Corporations and Credit Unions

(45) That for taxation years ending in calendar years that commence after Royal Assent to any measure giving effect to this paragraph, the provisions of the Act relating to co-operative corporations and credit unions be amended to provide that such corporations no longer be deemed not to be private corporations for the purpose of determining the amount of investment tax credit earned by such corporations in a taxation year and the rate of refund in respect of such amount.

Spousal RRSPs

(46) That the special three-year rule requiring a taxpayer to include in his income amounts withdrawn from his spouse's registered retirement savings plan cease to apply in respect of amounts withdrawn after February 15, 1984 where, at the time of the withdrawal and as a result of the breakdown of their marriage, the taxpayer and his spouse were living apart and separated pursuant to a Court order or written separation agreement.

Farm Capital Gain Rollover

(47) That where an individual has, after December 31, 1983, disposed of a qualified farm property owned by him or by his spouse on that date, he be entitled to deduct in a taxation year a special contribution to a registered retirement savings plan to the extent that the total of all such special contributions for the year and preceding taxation years made by him does not exceed the lesser of his taxable capital gains on such dispositions and the amount by which his farm contribution limit exceeds the total of his contributions (other than special contributions) to registered retirement savings plans and registered pension plans for the year and all preceding years after 1983 and for the purpose of this paragraph

(a) "qualified farm property" of an individual means any real property owned by him and used by him, his spouse, any of his children or a family farm corporation of any such person in the business of farming at any time after 1971 and before 1984 and includes shares of his family farm corporation and an interest in his family farm partnership,

(b) "farm contribution limit" of an individual means the amount by which the product obtained when $10,000 is multiplied by the number of years after 1971 and before 1984 in which the individual or his spouse was a full-time farmer exceeds the total of all special contributions by the individual's spouse, and

(c) "full-time farmer" in a year means an individual who was in the year a shareholder of his family farm corporation and an individual who in the year leased farmland to a full-time farmer who was his spouse or child or to a family farm corporation or partnership of his spouse or child and includes any other individual (other than an individual who in the year had or would have had, if he sustained sufficient farming losses, a restricted farm loss) who was in the year actively engaged in the business of farming in Canada.

egistered Home wnership Savings lans

(48) That the special provisions applicable for the 1983 and 1984 taxation years relating to the deduction of unused contribution limits in respect of registered home ownership savings plans be amended to ensure their application in respect of condominiums or similar properties as though the property was registered by the taxpayer at the time he occupies it as his residence where the property is registered before 1986.

ransfers of Life nsurance Policies

(49) That for taxation years commencing after 1982, the transfer of an interest in a life insurance policy (other than an annuity contract) to the policyholder's spouse, former spouse or child for no consideration occur on a tax-free basis where the transferee or a child of the policyholder or transferee is the person whose life is insured under the policy.

(50) That for taxation years commencing after 1982, a taxpayer be deemed to have last acquired before December 2, 1982 an interest in a life insurance policy (other than an annuity contract) if subsection 12.2(9) of the Act does not apply to that interest and it was acquired from a person with whom the taxpayer was not dealing at arm's length who last acquired the interest before December 2, 1982.

egistration of harities

(51) That

(a) in respect of charities registered after June 1984, the definition of "registered charity" be amended to clarify that the requirement that a registered charity be resident in Canada and either created or established in Canada is applicable to a branch, section, parish, congregation or other division of a Canadian charitable organization or foundation,

(b) for taxation years commencing after 1983, the provisions relating to charities be amended to provide that a charity be required to be registered as a charitable organization, a private foundation or a public foundation, and

(c) for taxation years commencing after 1984, a charity not qualify as a charitable organization or public foundation where a majority of its directors, officers or trustees do not deal with each other at arm's length or further, in the case of a charity registered after February 15, 1984, where more than 50 per cent of its capital was contributed by one person or a group of persons who do not deal with each other at arm's length.

Exclusion from Receipted Donations

(52) That for taxation years commencing after 1983, endowments for periods of 10 years or more and gifts out of the capital of an estate not be treated as receipted donations for the purposes of a charity's disbursement quota.

Disbursement Quota of a Charitable Foundation

(53) That for taxation years commencing after 1983, the disbursement quota of a charitable foundation be the total of

(a) 80 per cent of receipted donations received by it in its immediately preceding taxation year,

(b) 80 per cent, or 100 per cent in the case of a private foundation, of gifts from other charities received by it in its immediately preceding taxation year, and

(c) 4.5 per cent of the value of its investment assets at the beginning of the year.

Disbursement Quota

(54) That for the 1984 and subsequent taxation years, rules be provided to permit a carry-over of the disbursements of a charity in excess of its quota and to grant the Minister of National Revenue the discretion to reduce the disbursement quota of a charity.

Information Returns of Charities

(55) That for the 1984 and subsequent taxation years, the time within which a registered charity is required to file information and public information returns with the Minister of National Revenue be extended from three months to six months after the end of its taxation year.

Non-qualified Investments of Charities

(56) That for taxation years commencing after 1983, certain shares and indebtedness held by a private foundation be defined as "non-qualified investments" and that a special tax be payable by the issuer or borrower where such an investment fails to yield a minimum annual rate of return to the foundation.

Anti-avoidance Rules for Charities

(57) That for taxation years commencing after 1983, anti-avoidance rules be introduced

(a) to prevent a group of charities from reducing or postponing its disbursement requirements by transferring funds within the group, and

(b) to impose a special tax of 25 per cent where a foundation transfers more than 50 per cent of its capital to a charitable organization for the purpose of reducing or postponing its disbursement requirements.

Accumulations By Charities

(58) That where in a taxation year commencing after 1983 a charity chooses not to use or fails to use for its intended purpose any property or income accumulated with the consent of the Minister of National Revenue, the amount thereof be deemed to be a receipted donation received by it in the year.

Reassessments

(59) That with respect to notices of assessment for the 1983 and subsequent taxations years, the existing four-year period during which the Minister of National Revenue may reassess tax payable under the Act be reduced to three years and that consequential changes be made to related provisions of the Act.

Waiver of Reassessment Period

(60) That effective after February 15, 1984, a taxpayer be permitted to revoke a waiver of the reassessment period upon one year's notice in the case of certain waivers filed before February 16, 1984 and upon six months' notice in other cases.

Tax Instalments

(61) That the provisions of the Act requiring taxpayers to pay tax instalments be amended to require the instalments to be determined on the basis of tax payable before deducting any share-purchase tax credit or scientific research tax credit where the credit is pursuant to an investment acquired after February 15, 1984 other than certain investments acquired before March 1984.

(62) That for the 1984 and subsequent taxation years,

(a) individuals and corporations not be required to pay tax instalments for a taxation year where the federal tax payable or the instalment base for the year is $1,000 or less, and

(b) interest on deficient tax instalments for a taxation year not be exigible where the combined federal and provincial interest payable in respect of such instalments is $25 or less.

(63) That for taxation years ending in calendar years that commence after Royal Assent to any measure giving effect to this paragraph, the rule that provides an extension in the due date of a Canadian-controlled private corporation's balance of tax payable for a year be based on a requirement that the aggregate of the taxable incomes for the year of the corporation and all associated corporations not exceed the aggregate of their business limits.

Joint and Several Liability

(64) That the provision of the Act relating to the joint and several tax liability arising as a consequence of spousal property transfers be amended to provide that a transferee will not be liable or required to make any payment after February 15, 1984 in respect of amounts owed under the Act by the transferor where property is transferred pursuant to a court order or written separation agreement if at the time the property was transferred the transferor and transferee were separated and living apart as a result of the breakdown of their marriage.

Refund of Taxes

(65) That the Minister of National Revenue be required after February 15, 1984 to refund to a taxpayer resident in Canada any overpayment of tax, interest or penalty resulting from a decision in which a court vacates or varies the taxpayer's assessment or refers his assessment back to the Minister for reassessment notwithstanding an appeal of the decision by the Minister and that the Minister be empowered to repay tax, interest and penalties to other taxpayers who are disputing similar cases.

Notice of Objection

(66) That a notice of objection to an assessment made after Royal Assent to any measure giving effect to this paragraph be permitted to be filed within 180 days after the date on which the assessment was made.

Appeals

(67) That with respect to notices of objection served after Royal Assent to any measure giving effect to this paragraph, a taxpayer be permitted to appeal from an assessment to the Tax Court of Canada or the Federal Court without the consent of the Minister of National Revenue after 90 days from service of the notice of objection on the Minister.

Costs in Tax Court of Canada

(68) That after Royal Assent to any measure giving effect to this paragraph, the prohibition on the award of costs by the Tax Court of Canada to a taxpayer on the disposition of an appeal be repealed.

Costs in Federal Court of Canada

(69) That the Federal Court of Canada be required to award to a taxpayer all reasonable and proper costs of an appeal instituted by the Minister of National Revenue that is disposed of after Royal Assent to any measure giving effect to this paragraph where the disputed amount of tax assessed or loss determined does not exceed $10,000 or $20,000 respectively.

Part VI Tax and Preferred-Rate Amount	(70) That, for taxation years ending in calendar years that commence after Royal Assent to any measure giving effect to this paragraph, the Act be amended to repeal Part VI thereof and to provide a simpler definition of the preferred-rate amount of a corporation at the end of a taxation year for the purpose of calculating a credit union's special deduction under subsection 137(3) of the Act.
Part VII or Part VIII Late Designations	(71) That effective after June 1983 in the case of a share-purchase tax credit designation and effective after September 1983 in the case of a scientific research tax credit designation, the penalty for late filing of the designation be required to accompany the related prescribed form.
Additional Part VII or Part VIII Tax	(72) That rules be introduced to provide that where a public corporation has made an election referred to in subparagraph 43(c) or 44(c) of this Motion and the share-purchase or scientific research tax credits reported by a person issuing information returns in respect of such credits exceed the amount of credit allocated to that person, he be required to pay additional Part VII or Part VIII tax in respect of that excess.
Foreign Property	(73) That for the 1972 and subsequent taxation years, a trust governed by a registered pension fund or plan not be subject to taxation in respect of foreign property held by the trust where it was created solely for the benefit of non-residents working outside Canada.
	(74) That for the purposes of the provision of the Act relating to property held by pension funds and other exempt persons, the definition of "foreign property" be amended to exclude a share of a Canadian corporation listed on a prescribed stock exchange and acquired after 1983 pursuant to the exchange or conversion in accordance with terms and conditions existing on December 31, 1983 of another such share issued before 1984.
Part XII Tax	(75) That subsection 208(1) of the Act not apply until after December 31, 1989 with respect to income from properties acquired before December 12, 1979.
Non-Arm's Length Sale of Shares	(76) That section 212.1 of the Act not apply to a disposition of shares by a non-resident after April 10, 1978 to a Canadian corporation with which he does not, by virtue of a right referred to in paragraph 251(5)(b) of the Act, deal at arm's length.
Security for Taxes Payable	(77) That for taxes in dispute pursuant to notices of objection filed or appeals instituted after February 15, 1984, taxpayers be permitted to provide security for payment thereof satisfactory to the Minister of National Revenue.

Interest on Non-Resident Withholding Tax

(78) That, where the withholding tax required under Part XIII of the Act to be deducted by a taxpayer from any amount paid or credited to a non-resident is not remitted on or before the 15th day of the month following that in which the amount was so paid or credited,

(a) interest at the prescribed rate be payable by the taxpayer for the period commencing on the later of that day and February 15, 1984, where the taxpayer has failed to deduct or withhold such tax as required,

(b) the non-resident be jointly and severally liable with the taxpayer to pay any interest arising under subparagraph (a), and

(c) interest at the prescribed rate be payable by the taxpayer for the period commencing on that day, where the taxpayer has failed to remit or pay the tax that had been deducted or withheld.

Tax Avoidance

(79) That effective after February 15, 1984, section 246 of the Act relating to directions of the Treasury Board to counteract the avoidance or reduction of taxes be repealed.

Fiscal Period of Partnership

(80) That for taxation years ending in calendar years that commence after Royal Assent to any measure giving effect to this paragraph, the Act be amended to clarify that a reference to a fiscal period of a partnership ending in a taxation year includes a fiscal period of the partnership ending coincidentally with that year.

Option Control

(81) That for taxation years ending in calendar years that commence after Royal Assent to any measure giving effect to this paragraph, the rules in subsection 251(5) of the Act be made applicable for the purpose of determining whether a corporation qualifies as a Canadian-controlled private corporation.

NOTICE OF WAYS AND MEANS MOTION TO AMEND
THE PETROLEUM AND GAS REVENUE TAX ACT

That it is expedient to amend the Petroleum and Gas Revenue Tax Act and to provide among other things:

Injection Substances

(1) That the cost of substances injected into a natural reservoir to assist in the recovery of petroleum or gas be allowed as a deduction

(a) in computing a taxpayer's production revenue for the 1984 taxation year, where the substance is injected after 1980 and before the end of the taxation year and its cost was not previously deducted, and

(b) in computing a taxpayer's production revenue for taxation years ending after 1984, where the substance is injected in the taxation year.

NOTICE OF WAYS AND MEANS MOTION TO
AMEND THE CANADA PENSION PLAN

That it is expedient to amend the Canada Pension Plan and to provide among other things:

Prescribed Rules

(1) That the provision of the Canada Pension Plan requiring deductions by reference to tables prepared in accordance with prescribed rules be replaced with a requirement that deductions be made in accordance with prescribed rules, that such replacement be effective on January 1, 1985 and that the provision in force prior to January 19, 1984 continue to apply until January 1, 1985.

NOTICE OF WAYS AND MEANS MOTION TO
AMEND THE TAX COURT OF CANADA ACT

That it is expedient to amend the Tax Court of Canada Act and to provide among other things:

Costs in Tax Court of Canada

(1) That the Tax Court of Canada be empowered to award an appellant his costs of an appeal in matters under the jurisdiction of the Court disposed of after Royal Assent to any measure giving effect to this paragraph.

Department of Finance Canada

Ministère des Finances Canada

Release Communiqué

Immediate release

Ottawa, June 15, 1984
84-100

LEGISLATIVE AND ADMINISTRATIVE CHANGES TO SCIENTIFIC RESEARCH TAX CREDIT (SRTC)

The Honourable Marc Lalonde, Minister of Finance, today issued a statement on the operation and costs of the research and development tax incentives. He also announced that he will introduce legislation to ensure that research expenditures of tax-exempt organizations will not give rise to Scientific Research Tax Credits (SRTCs). The legislative changes will apply to share and debt obligations issued and rights granted after today.

"The SRTC program has been highly effective in directing help through the tax system to R&D performers, and has been welcomed by industry," Mr. Lalonde said. "Twelve of the top 30 companies conducting R&D in Canada have made use of this mechanism. In addition, hundreds of smaller companies have been able to benefit from the program. This has permitted these companies to receive additional financing during the research phase, that critical period when support is most needed--up front."

The Minister noted that questions had recently been raised concerning the operation and cost of the SRTC which was introduced in the April 19, 1983 budget following an extensive series of consultations with industry.

He said suggestions that the cost of the program to date is about $900 million are based on some $1.8 billion of securities or debt designated under the program. This overstates the actual cost of the program for a number of reasons. First, the SRTC has been flexibly designed so that the credit may be flowed through a series of firms, each of which in turn issues an SRTC security. This results

.../2

in double counting of potential revenue cost when multiple designations are made, but the credit will effectively be paid only once in respect of the actual research and development. Second, when investors are individuals, the provinces pick up a share of the cost of the program. Finally, some firms have funded their R&D programs for the next couple of years. In that case the SRTC is so designed that the cost will not be borne by the government until the R&D is actually performed.

In addition, the filing date for issuing an SRTC for 1983 was extended to the end of February 1984 to allow firms to take advantage of the program in its first year. This had the effect of allowing firms to issue SRTCs for both 1983 and 1984 at once, so that the SRTC designations represent two years of designations, rather than one. The Minister said it is impossible to arrive at an accurate cost figure at this early stage of program, before tax returns are filed, but that it is certainly lower than the figure that has been suggested.

"While the cost of the program is somewhat higher than estimated, I am pleased with its success in providing assistance to R&D in Canada," the Minister said. "This program has generated substantial private investment in new Canadian R&D which is essential to our long-term competitiveness in world markets."

He noted that there are special built-in safeguards in the SRTC mechanism to ensure compliance and facilitate administration. These safeguards include the designation of R&D expenditures by the performing companies, directors' liability with respect to payment of the Part VIII tax, and the requirement that investors must show they have exercised due diligence in acquiring an SRTC.

Part VIII tax is a refundable tax, payable annually by a corporation and equal to the total SRTC designations it has made to investors. The tax is refundable when research expenditures are made or SRTC credits are earned.

Mr. Lalonde noted that his colleague, the Minister of National Revenue, had announced on June 4 that officials of his department would be assessing Part VIII tax in situations where the company could not satisfy Revenue Canada that it would be undertaking sufficient R&D before the end of its year.

.../3

"We are monitoring the SRTC program in conjunction with Revenue Canada, to ensure its proper operation by companies performing R&D and investors acquiring SRTCs," he said.

The Minister noted that the purpose of introducing a Scientific Research Tax Credit program last year was to provide private sector corporations greater access to tax incentives in situations where they are not able to use them on a current basis. However, a number of arrangements for channeling research efforts of certain tax-exempt entities through taxable corporations solely to benefit from the SRTC program have been proposed.

Mr. Lalonde said that hospitals, universities and other tax-exempt entities already receive substantial funding from various levels of government and the purpose of the SRTC program was to stimulate greater R&D by the private sector.

"I believe it is appropriate to clarify in the legislation that tax-exempt organizations cannot obtain benefits from the SRTC program by channeling their research through taxable Canadian corporations in an attempt to secure tax benefits to which they are not entitled themselves," he said.

Reference:

Tax Policy and Legislation Branch
David Holland (613) 992-1282
Len Farber (613) 996-0597

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 1315 hours MDT

Ottawa, June 19, 1984
84-102

Notes for an address
by the Honourable Marc Lalonde
Minister of Finance
to the Investment Dealers Association of Canada
Jasper, Alberta
June 19, 1984

CHECK AGAINST DELIVERY

One of the fringe benefits of being Minister of Finance is to speak to the Investment Dealers Association in delightful places like Jasper. Last year, I recall, it was St. Andrew's-by-the-Sea. Of course, you can hardly be accused of taking a holiday when you invite the Minister of Finance to entertain you. Nevertheless, in keeping with the surroundings, I shall try to complement the reflective tone of your gathering in my remarks here today.

I believe it is a credit to your innate sense of optimism that you planned this conference for a locale more notable for bears than for bulls. You may have noticed the recent news report about the bear that crashed through the doors of a bank on the main street of Jasper. I must say that I wondered for a while whether the Prime Minister would receive another complaint from the Canadian Bankers Association on the subject of "bank-bashing". Fortunately, it has been determined that the bear was not a candidate for the Liberal leadership and is in fact a card-carrying member of another party.

This is an appropriate time for serious reflection on past and future economic directions for Canada. We are in the middle of a particularly important political transition -- one that will continue even after the next election until the style and substance of a new government has become established.

The era now drawing to a close has been one of challenge and achievement for Canada. It is not my purpose today to review the full record of the past 16 years, or to try to usurp history in judging the contribution of Prime Minister Trudeau. While significant progress has been made in constitutional, social and many other fields of public policy, Canada's economic achievements during this period have been equally noteworthy.

Canada's record of economic growth, job creation and business investment has been second to none among the major industrial nations over the past 16 years. We certainly felt the tremors, and we continue to feel the after-effects, of the world economic upheavals that followed the oil price explosions of the 1970s. But we have fared better than most in some extremely difficult circumstances.

Equally important, this country is positioned for solid new progress in the years ahead. I note that Carl Beigie, chief economist for Dominion Securities Pitfield Ltd., was recently quoted as saying the Canadian economy is fundamentally "in better shape than it has been for 15 years."

It does not take a dewy-eyed optimist to subscribe to that kind of positive view of Canada's economic position. For example, we have made important progress against inflation and in favour of a better competitive position in the world economy. We have the resources -- human, material and financial -- to translate this country's good prospects into real success.

Political eras can be precisely defined by the periods in office of particular governments and leaders. Economic eras, to the extent that they can be defined at all, do not fit into neat packages and do not correspond to political eras. And this is so in spite of the efforts of all those who would dearly love to convince the public that government policies can be blamed, or congratulated as the case may be, as the sole cause for any given economic record.

We know, on the contrary, that the economic world in which Canada must make its way is moved by a great many forces, most of them substantially beyond the control of any one government and many of them difficult to predict with any degree of accuracy. Clearly, coping with that kind of world requires that government provide the broadest possible measure of stability and certainty while at the same time encouraging an economic environment conducive to necessary change and adjustment. These have been fundamental goals of our fiscal, economic and monetary policies. I believe they will continue to be major priorities of our next government as well.

This approach does not preclude dramatic new measures to deal with economic problems. But it does strongly suggest that changes in policies must be designed to minimize the disruptive effect that change, even change for the better, can bring. This goal has been central to my efforts as Minister of Finance, and it is reflected in the greatly expanded consultation process that has been introduced. We have seen a fundamental change in the way budgets are designed and implemented. Budgets and governments come and go, but I believe this more open and more constructive consultation process will remain part of the permanent fabric of government and its relations with business, labour and all others in society.

Quite frankly, I can think of no more important way to get Canada working better economically than to continue to expand the opportunity for people from all sectors of the economy to sit down and talk practical sense to each other; and to do it free of posturing and the charades that characterize so much of the public rhetoric that we hear.

At the same time, I believe we can all benefit from a greater emphasis on the reality of our economic situation than on what might be called the mythical beliefs that spring, full-blown and often distorted, from the particular biases that we may have.

I would like to pursue this theme in the specific context of your professional interest -- investment. I noted earlier that Canadians have a good record of business investment -- we in Canada have invested more as a proportion of Gross National Product than any other major industrial nation except Japan during the past decade and a half. There are some who talk as if we in Canada hadn't done anything right in the investment field since the days of C.D. Howe. If that were the case, I wouldn't be standing here today in front of so many eminently successful investment people.

There is no denying that capital investment has been slow to recover from the effects of the recession. Like many others in Canada, I wish that more companies had adopted a more aggressive approach to new capital investment in the immediate post-recession period when total economic demand was at a low ebb.

However, in some sectors, the recovery has yet to take firm hold. In others, capacity utilization remains relatively low despite rising demand and output. And many in the private sector want to improve balance sheets before making major new commitments for plant and equipment. At the same time, I cannot emphasize too much the need for aggressive investment in more efficient, modern facilities and in the research and development enterprises that are crucial to product and productivity improvements. I remain confident that capital investment will grow strongly in the months and years to come.

Your industry has played a key role in helping to provide the new capital that will put balance sheets in better shape and companies in better position to invest in their own future. Last year, for example, about $5 billion in new equity financing was issued in Canada. That's a good start, but we will need to step up the pace if the private sector is to make the kind of progress that is within its grasp.

Like so many other economic issues, investment is a complex subject that defies quick and easy understanding. In Canada, it's made even more challenging by the fact that foreign direct investment plays such an important role in our economy. And this has given the public debate about investment an emotional and sometimes irrational flavour.

I have had occasion to reject the extreme notions of foreign investment as an unmitigated evil for Canada on the one hand and the total salvation for our economy on the other. The federal government's policies have been built on the practical principle that foreign investment has played and will continue to play an important role in Canada. This is implicit, for example, in the role of the Foreign Investment Review Agency which assesses prospective new investments and acquisitions and currently approves about 97 per cent of them on the basis of significant benefit for Canada.

One of the more popular myths is that new foreign direct investment has all but disappeared in Canada in recent years. And this in turn is blamed for a wide assortment of economic evils in Canada.

I believe it is important to clarify the issues involved, and to try to view foreign investment in a realistic perspective. First of all, we need to clear away some of the statistical confusion that surrounds the subject.

At the risk of over-simplifying, we can focus on three main types of investment behaviour that have a bearing on the foreign investment debate. One is direct foreign investment in Canada. Another is the acquisition of foreign-owned assets in Canada by Canadians, which produces an outflow of foreign direct investment. And the other is direct investment abroad by Canadians through acquisitions and other means. These different sets of transactions all contribute to the net direct investment flows recorded in the Canadian balance of payments.

Let's look first at Canadian direct investment in other countries. These investments have been increasing strongly in recent years. For example, over the past seven years, Canadian direct investment abroad was more than four times larger than in the previous seven years. While this has weakened the overall balance of direct investment flows, it is clearly a positive indication of a maturing economy.

The fact that Canadian investment abroad has increased obviously does not mean that foreign investors have lost interest in Canada. The figures tell us that Canadian firms have increasingly been able to take advantage of foreign business investment opportunities, as indeed they must in many sectors in order to ensure full access to other markets. This is a sign of an economy continuing to develop fuller links with the world economy on which we ultimately all depend. It is a sign that we in Canada have developed industries with the know-how and the financial capability to expand into larger markets. That's cause for optimism rather than gloom about the performance of our economy.

These investments abroad, by the way, have helped to increase the flow of dividend income into Canada to offset some of outflows resulting from foreign direct investment in this country. However, dividend inflows remain well below the outflows.

Now let's narrow the focus a bit more to look at acquisitions of foreign business assets in Canada by Canadians. Some people give strong moral support to the idea that it would be healthy for Canadians to own a larger share of key domestic industries than they have in the past. Yet, these same people seem to argue that there is always a better time -- never today, never tomorrow -- to begin making some progress in that regard. Regardless, we have been making progress.

At the same time as Canadians have invested more actively abroad, they have been investing substantially in the acquisition of foreign-owned assets in Canada, most notably in the petroleum industry but in several other sectors as well. This has helped increase Canadian control of capital employed in non-financial industries from 64 per cent in 1970 to an estimated 74 per cent in 1982.

Large outflows caused by takeovers and other special transactions resulted in foreign direct investment in Canada being negative in 1981 and 1982. Nevertheless, foreign direct investment in Canada has been positive in 17 of the past 20 years, and the first quarter figures for this year show a substantial net inflow as well.

But these net figures still do not reveal the full picture of foreign investor interest in Canada. After all, the amounts Canadians spend on acquiring foreign-owned assets in Canada are quite separate from what foreign investors send or bring in as direct investment. So let's take a look at this side of the ledger. And in so doing, we can assess the claim that foreign direct investment has been deserting Canada in recent years. Since this supposed decrease has been widely blamed on the Foreign Investment Review Agency, let's look at new foreign direct investment before and after FIRA came into operation in 1974.

In the 10 years prior to FIRA from 1964 to 1973, new foreign direct investment -- that is, exclusive of takeovers and other special transactions -- flowed into Canada at an average rate of about $690 million per year. After FIRA was in force, from 1974 through 1983, the average was about $1.4 billion per year -- a substantial increase. And the average in the past four years has been more than $2 billion.

In short, new foreign direct investment has increased, not decreased -- and has increased substantially in recent years. And this has happened while FIRA continued to do its job of ensuring that new foreign direct investment brings significant benefit to Canada.

But those figures do not tell the full story of growth in foreign direct investment in Canada. The balance of payments figures in which investment flows are recorded do not include reinvestment of retained earnings by foreign firms already in Canada. A good case can be made for including these earnings because they are the most important form in which direct investment takes place. Currently, they are running in the vicinity of $4 billion per year. Many other countries include retained earnings in their balance of payments.

Including retained earnings, we find that the book value of foreign direct investment has continued to increase in Canada at a substantial pace -- up from about $26 billion in 1970 to an estimated $72 billion last year. At the same time it must be acknowledged that direct foreign investment has declined as a proportion of total foreign investment in Canada. The changing composition of total foreign long-term investment reflects, among other things, the elimination of the non-resident withholding tax on interest income from newly issued long-term corporate bonds.

In any event, it is a mistake to attribute a major role to FIRA in the trends affecting foreign investment in Canada. The scope of the FIRA process is quite limited -- affecting in recent years only about 10 per cent of the annual increase in the value of Canadian assets held by foreign-owned companies. And we have seen that inflows of new foreign direct investment have continued to grow.

My purpose today is to set the record straight on the foreign investment issue, not to make a major point about FIRA as such. But too often the media and opposition critics have chased illusions and have opted for scapegoats rather than real solutions for economic problems. And few issues have illustrated that tendency better than FIRA. It's time to stop dealing in mythical beliefs about investment and start facing reality.

As I have noted, a substantial increase in equity investment in the corporate sector is clearly desirable at the present time. I do not quarrel with those who argue that foreign investors should continue to play a significant role in this increased investment in equities -- I agree with them. But I do question the balance and the judgment of those who treat foreign equity investment as the sole solution for Canada's economic growth problems, and who largely ignore the need to encourage more Canadians to invest more aggressively in their own country's future. Goodness knows, the Government of Canada has not ignored the need -- we have a set of very favourable incentives for individual Canadian investors.

There is an overwhelming case for Canadians to continue to play a more direct role as investors in their own economic future -- to become more active, more confident and more successful in their own right and in partnership with foreign investors in this country.

To accomplish that goal, we Canadians have to find a better balance not only in our investment behaviour but in our economic attitudes in general. And that should include speaking out loud and often at home and abroad on the basic soundness of the economy. Clearly, there is much to do in this regard to get the message across. Earlier this month, for example, a public opinion survey found that 37 per cent of respondents believed the inflation rate is 10 per cent or higher and almost one quarter believed the unemployment rate was greater than 20 per cent. Could they have been reading and listening to the same commentators and public figures who have made careers out of exaggerating the problems and underestimating the prospects of the Canadian economy?

Those who look ahead with a jaundiced eye are in danger of seriously underselling the capacity of Canadians to meet and overcome the many economic challenges that we face. We have done well over the years. While building a strong record of economic growth and job creation, we Canadians have invested aggressively both at home and abroad. And we have continued to welcome foreign investors as major partners in the job of building the economic future.

We have made a good beginning in the post-recession period, but just a beginning, in the job of building renewed economic strength in a much tougher world trading environment. We should take heart from the progress we are making. Just in the past two weeks, for example, we have seen significant new investment decisions in the automobile and petroleum industries.

As you are well aware, it is the massive job of investing money, talent and hard work that will determine how successfully Canada grasps the opportunities that lie ahead. In that regard, I can do no better than endorse the recent message of your president, Andrew Kniewasser, to the effect that we can put in place in Canada more than $3 trillion of new investment over the balance of the 1980s and 1990s. And that means investments not only in new plant and equipment, and technology, but also in enriched human resources and new management and marketing techniques to make this country thrive as never before.

I applaud that sense of confidence and determination and the ability to see the investment challenge in its full human dimensions. And I urge Canadians to face the future with the same blend of confidence and realism that will help us to develop our capacity to make a great nation much greater.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate Release

Ottawa, June 22, 1984
84-103

LEGISLATION TO LIMIT USE OF DIVIDEND TAX CREDIT BY GOVERNMENTS

The Honourable Marc Lalonde, Minister of Finance, today announced his intention to introduce legislation under which the beneficial tax treatment of dividends will not apply to shares issued by certain government-owned corporations. It will generally affect shares issued after today by corporations controlled by a province or by a Canadian municipality.

The effect will be to deny the dividend tax credit to individual investors and the inter-company dividend exemption to corporate investors with respect to dividends paid on such shares. The legislation will permit an exemption for those corporations in which a substantial amount of participating equity is held by the private sector.

Mr. Lalonde said the change was necessary because of arrangements made by certain provinces solely to obtain the benefit of the special tax treatment of dividends. Under these arrangements a province would establish a separate taxable corporation and arrange for it to issue preferred shares to the public, the proceeds of which would in effect be used to finance the government. If the province had borrowed the funds directly, it would pay interest at the regular rates. However, by arranging the financing through a separate company its effective borrowing costs would be significantly reduced because of the availability to investors of the dividend tax credit.

The dividend tax credit is a special tax deduction provided as an incentive to encourage equity investment in taxable Canadian corporations. By using a separate corporation, the province would secure a benefit, the cost of which would be borne by the federal government and by other provinces in which the investors reside.

.../2

In recent discussions officials of the federal government and a number of provinces expressed serious concerns about this type of arrangement and it had been agreed that the issue would be discussed by Ministers at the earliest opportunity.

"Notwithstanding these discussions, the Province of Manitoba decided to proceed with a transaction of this nature, leaving the federal government no choice but to take immediate action," the Minister said. "I regret very much Manitoba's decision to go ahead with this transaction in these circumstances."

However, the new limitation will not apply to shares to be issued by Manitoba Properties Inc. pursuant to its currently pending offer, as to do so would disrupt a transaction that has already been publicly announced. But the new legislation will prevent the tax benefits from attaching to similar transactions in the future.

Reference:

T.C. Morris
(613) 995-3586

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate Release

Ottawa, June 26, 1984
84-107

INDEXATION OF ALCOHOL AND TOBACCO TAX TO BE CHANGED

The Honourable Marc Lalonde, Minister of Finance, today announced the government's intention to modify the basis for indexing federal taxes on alcoholic beverages and tobacco products. The change is in response to the recommendations of the Task Force on Alcohol and Tobacco Tax Indexation, made public May 11.

In the past, the indexation of excise taxes and duties on alcoholic beverages and tobacco products has been based on the specific subgroups of the consumer price index (CPI) for those products. In the future, the indexing for these products will be based on changes in the total CPI.

The indexing adjustments to be effective on September 1, 1984, will reflect the percentage increase between the average CPI for the 12 months ending June 30, 1984 and the average CPI for the preceding 12-month period. This increase is expected to be about 5 per cent. Under the present system, the tax increases would have been approximately 8 per cent for alcoholic beverages and about 17 per cent for tobacco products.

The Minister estimated that this change will reduce federal revenues by some $100 million for the 12 months beginning September 1984.

Mr. Lalonde added: "In view of the fact that provincial taxes and markups apply to a price base that includes federal taxes, the saving to consumers will be greater than $100 million."

.../2

The Minister said that, "although the government will forgo substantial revenues, I am pleased that consultations have led to a fairer and more satisfactory tax system with a resulting benefit to consumers. The change responds to concerns expressed by tobacco growers, tourist and restaurant associations, producers of alcohol and tobacco products and employees in those industries."

The Minister observed that provincial markups and taxes constitute a substantial portion of the retail prices of alcoholic beverages and tobacco products. On a typical bottle of spirits, for example, provincial taxes and markups amount to 50 to 60 per cent of the retail price while the federal levies amount to some 25 per cent of that price.

"The recent budgets of the provinces of Ontario and Quebec did not significantly increase provincial taxes and markups upon these industries," Mr. Lalonde said, and added: "I hope that the relief provided by this adjustment to the federal tax indexing formula will not be offset in future years by increases in provincial levies."

Reference:

Brian Wurts
Tax Policy and Legislation Branch
(613) 992-3113

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Immediate release

Ottawa, July 27, 1984
84-118

The Honourable Marc Lalonde, Minister of Finance, and the Honourable Judy Erola, Minister of Consumer and Corporate Affairs and Minister for the Status of Women, announced today a decision by the federal government to exempt sanitary napkins and tampons from the federal sales tax.

The tax, levied at a rate of 9 per cent on the manufacturers' selling price to wholesalers, is being removed effective March 23, 1984.

"These products are essential for women and the government has accepted the argument that they should be treated, for tax purposes, in the same manner as most other non-discretionary items," Mr. Lalonde said.

The Minister noted that the matter has involved months of discussion and consultation between the government and the firms which produce sanitary napkins and tampons. Some of the technical questions have been the subject of cases before the Federal Court of Canada and the Tariff Board.

"The Department of Consumer and Corporate Affairs will monitor the impact of the removal of the federal sales tax on the consumer price for those products. It is important that these benefits be passed on to Canadian women," Mrs. Erola said.

The move is expected to cost the federal government some $12 to 15 million a year in revenues.

S.N. Poddar, Director
Tax Analysis & Commodity Tax Division
(613) 996-8267

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, August 9, 1984
84-126

GOVERNMENT WOULD REINTRODUCE FISCAL MEASURES

The Honourable Marc Lalonde, Minister of Finance, announced today that it is the government's intention, if re-elected, to reintroduce in the new Parliament the tax and tariff measures proposed in the Budgets of April 19, 1983 and February 15, 1984, that were on the Order Paper of the House of Commons at the time of dissolution. These would be effective from the dates set out in the Notices of Ways and Means motions in the last session.

These budgetary measures involve amendments to the Income Tax Act, Petroleum and Gas Revenue Tax Act, Excise Tax Act, Excise Act, Customs Act and Custom Tariff, and a new measure dealing with the interpretation of international tax conventions.

In the interim, pending such government action, the Department of National Revenue will continue, in the traditional manner, to administer budgetary measures on a provisional basis.

The Minister said he is making this announcement in order to minimize confusion and uncertainty among taxpayers.

"I wish to underline the importance of these measures both in promoting improvements in the tax system and in carrying forward the government's fiscal policy, as set out in the last two budgets, to implement a number of special recovery projects that will accelerate economic recovery and growth while at the same time permitting a gradual reduction of the budget deficit."

.../2

The Minister's statement applies to the following measures which had not been adopted by Parliament before dissolution:

Income Tax Amendments

Notices of Ways and Means Motions tabled on June 18, 1984, covered the income tax proposals in the February budget and a number of new relieving provisions for tax administration. The February budget measures include extensive changes to reduce and simplify the tax law for small business, to reduce the tax liability on the sale of family farms and to increase the exemptions for the payment of quarterly tax instalments. Among the administrative changes are provisions to reduce the four-year limit on reassessments of tax to three years, to broaden the appeal rights of taxpayers and to enable the Tax Court of Canada to award costs to taxpayers on successful appeals.

Petroleum and Gas Revenue Tax (PGRT)

Bill C-14, introduced on January 31, 1984, contained provisions, announced previously, to reduce the rate of PGRT for the period from June 1, 1982 to May 31, 1983, to introduce a credit for corporations of up to $250,000 of PGRT payable on eligible production revenue, to change the method of taxation of production royalties to a withholding tax and to allow a deduction for eligible enhanced oil recovery capital costs.

Interpretation of Tax Treaties

On April 5, 1984 a Ways and Means Motion was tabled relating to the interpretation of Canada's tax treaties with other countries. This provides that the meaning of treaty terms will evolve with changes in Canadian tax laws.

Sales and Excise Tax Measures

The April 1983 budget proposed a number of special recovery projects to accelerate economic recovery, improve Canadian competitiveness and enhance prospects for long term growth. To help finance this program, it was proposed

.../3

in Bill C-15 that the rates of federal sales tax be increased by one percentage point during the period October 1, 1984 to December 31, 1988. That bill also contained the 1983 budget proposal for a 6 per cent tax on amounts charged for radio and television programming services, effective July 1, 1983. Revenues from this levy are intended to finance assistance to private production companies and independent producers under the new broadcasting strategy for Canada.

Bill C-15 also proposed a number of technical amendments relating to the air transportation tax and exemptions provided for certain products.

Other excise tax measures proposed in the last session:

-- Amendments to address a serious disparity in the application of federal sales tax to domestic and imported automobiles, by shifting the tax on automobiles from the manufacturers' to wholesalers' level, effective March 1, 1984. Currently, the tax applies to domestic motor vehicles on their sale price to retailers while imported vehicles are taxed on duty paid value. This difference in application of tax results in the payment of between $100 and $200 more tax on North American vehicles than on comparable vehicles produced in Europe or Japan.

-- Establishment of a formal assessment and appeal system relating to the sales and excise tax and the introduction of a number of technical amendments to improve the equity of the system. These include payment of interest on refund applications outstanding more than 60 days, refund of tax on sales that become bad debts and removal of criminal penalties for non-payment of sales and excise taxes.

Customs Tariff Measures

The February 15 budget contained a number of tariff changes including certain increases recommended by the Tariff Board in its report "Tariff Items Covering Goods Made/Not Made in Canada". The February 15 budget also contained a proposal to implement a new system of customs valuation, effective January 1, 1985. The latter proposal includes increases in certain tariffs to maintain existing levels of tariff protection that would otherwise be reduced under the new valuation system.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate Release

Ottawa, August 10, 1984
84-127

ADVISORY COMMITTEE TO STUDY EQUALITY OF PENSION BENEFITS

The Honourable Marc Lalonde, Minister of Finance, today announced the appointment of an Advisory Committee on Equal Pension Benefits to recommend ways of ensuring the equal treatment of men and women in federal pension legislation.

The 10-member committee, chaired by Roland Boutin of Ste. Foy, Que., an actuarial company executive, has already begun a series of meetings and has been asked to report this fall.

A proposal to set up such a committee was contained in a budget document, "Action Plan for Pension Reform", issued by Mr. Lalonde on February 15.

"Equality for women must extend to the workplace," Mr. Lalonde said. "While difficult technical issues require study, our objective is to ensure that pension benefits for male and female employees retiring in identical circumstances are truly equal and that this is clearly established in our federal law."

The committee, made up of members representing a wide range of expertise from the private sector, will report to the government on the best way to achieve this.

The Canadian Human Rights Act already prohibits unequal treatment of males and females and most pension plans embody that principle. But there are some types of retirement income plans, most notably defined contribution and money-purchase arrangements, under which benefits differ.

.../2

Mr. Lalonde said the formation of the committee is a further step in the government's commitment to pension reform and consultation on its reform proposals.

Draft amendments to the Pension Benefits Standards Act were tabled in the House of Commons on June 5 containing a provision to ensure equal benefits for men and women. The draft legislation also included proposals for inflation protection of benefits, vesting after two years of service, improved survivor benefits for spouses, increased coverage for full-time and part-time workers and ways to carry benefits from one job to another.

A list of the committee members is attached.

Reference:

H.G. Hanes,
Federal-Provincial Relations
and Social Policy Branch
(613) 993-7605

MEMBERS OF THE ADVISORY COMMITTEE ON EQUAL PENSION BENEFITS

Mr. Roland Boutin — Chairperson
Associate and Director
William M. Mercer Ltd.
Ste. Foy, Quebec

Mr. Robert Baldwin
National Representative
Research and Legislation
Canadian Labour Congress
Ottawa

Mr. Ian Bovey
Assistant Vice-president, Human Resources
Northern Telecom
Islington, Ont.

Ms Shelagh Day
President
Canadian Human Rights Reporter
Saskatoon, Sask.

Mr. Claude Garcia
1st Vice-president and Actuary
Standard Life Assurance Co.
Montreal

Ms Monique Giguère
Actuary
Pouliot Guérard Inc.
Montreal

Mr. Robert Granger
Special Assistant to the Executive Vice-president
Canadian Pacific Ltd.
Montreal

Dr. Noel Kinsella
Executive Assistant to the President
St. Thomas University
Fredericton, N.B.

Ms Lynne Sullivan
Consultant
William M. Mercer Ltd.
Toronto

Mr. Cecil White
Vice-president
Metropolitan Life Insurance Co.
Ottawa

COMMUNIQUE

From the Office of the Minister of Finance
The Honourable Marc Lalonde

Du Cabinet du ministre des Finances
l'honorable Marc Lalonde

Immediate release

Ottawa, August 24, 1984
84-130

DRAFT INCOME TAX LEGISLATION RELEASED

The Honourable Marc Lalonde, Minister of Finance, today made public draft legislation and technical explanatory notes which set out the details of the income tax changes proposed in the Notices of Ways and Means Motions tabled in the House of Commons on June 18, 1984.

Most of the changes were first announced in the February 15, 1984 budget and include measures to reduce and simplify the tax laws for small business and measures to reduce the tax liability on the sale of family farms and to increase the exemptions for the payment of quarterly tax instalments.

"The government tried to get this legislation passed by Parliament in June," Mr. Lalonde said. "Unfortunately, the Conservative opposition refused to give speedy consideration to these important and beneficial measures. It is the intention of the government to introduce this legislation as a priority item in the next Parliament."

The draft legislation sets out a number of relieving provisions for tax administration proposed in the February budget and in the June 18 Ways and Means Motion. Those provisions include the following changes in tax administration:

- The four-year limit on reassessment of tax is being reduced to three years with respect to the 1983 and subsequent taxation years.

Canada

- Taxpayers will be permitted to appeal to the Tax Court of Canada or to the Federal Court, without the consent of the Minister of National Revenue, at any time after 90 days from the filing of a notice of objection instead of the present 180-day waiting period.

- The Tax Court of Canada Act is being modified to give the Court the authority to establish guidelines for the award of costs to appellants with respect to all matters falling under its jurisdiction, including income tax appeals and certain unemployment insurance and Canada Pension Plan issues.

- The new provision to allow taxpayers to revoke reassessment waivers is being extended to allow as well the revocation of waivers filed before February 16, 1984.

- The Minister of National Revenue will be given authority to refund taxes to a taxpayer who has filed a notice of objection where the tax issue in dispute is substantially the same as an issue decided by a Court in favour of another taxpayer.

The draft legislation responds to representations received concerning the anti-avoidance measure proposed in the February budget to counter the tax reduction and tax deferral opportunities that arise with respect to certain offshore investment funds, by proposing a postponement of the effective date from January 1, 1985 to January 1, 1986 for offshore fund investments made before February 16, 1984. That change allows for a more orderly rearrangement of funds in existence on February 15, 1984 while continuing to discourage new offshore fund investments.

The Minister noted that while most of the draft amendments were released to the public on April 25, 1984, many enquiries have been received concerning the details of the revised draft legislation. Accordingly, the Minister stated that it would be useful and informative for the revised draft legislation to be

published. Any comments on the draft legislation should be submitted to the Tax Policy and Legislation Branch, Department of Finance, 160 Elgin Street, Ottawa, Ontario.

For further information, contact:

T.C. Morris,
Tax Policy and Legislation Branch,
(613) 995-3586

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Immediate Release

CA1
FN

Ottawa, September 24, 1984

84-142

Notes for Remarks by
The Honourable Michael Wilson
Minister of Finance for Canada
to the Joint Annual Meeting of the
International Monetary Fund and World Bank

Sheraton Park Hotel
Washington, D.C.
September 24, 1984

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Mr. Chairman, it is an honour for me to address this distinguished assembly. The institutions gathered here have been pillars of strength for the international financial system. The fact that these institutions have always met jointly is a tribute to the foresight of their founders and continuing testimony to the need for, and benefits of, international cooperation.

I have been Minister of Finance for Canada for only one week. In that brief period I have had the pleasure to chair the Commonwealth Finance Ministers meeting in Toronto and to meet with many of you personally to begin discussions of issues of common concern. This has been an exciting and stimulating beginning to my new job. I am impressed by the determination with which our problems are being tackled and the firm commitment of policy-makers in all countries to overcome them. This determination and commitment will allow us to improve our prospects for the remainder of the 1980s. I look forward, during my time as Minister of Finance, to working closely with each of you and I pledge to do so in the same spirit of constructive purpose that I have encountered so far.

As we meet today, we are justified in taking some satisfaction in the strength of the global economic recovery and the success of efforts to enhance the stability of the international financial system. Led by a remarkable performance in the United States, the industrial countries are experiencing less inflation and more buoyant growth than has been the case for a number of years. International cooperative efforts over the past two years, along with the recovery in the industrial countries, are easing the financial difficulties of the developing countries. Over the medium term there is every reason to be confident that the international debt situation can be successfully managed, within an environment of sustained growth, provided both debtor and creditor countries continue in their determination and commitment to follow appropriate policies, and provided the commercial banks remain flexible and pragmatic.

Developments over the past year justify increased optimism on our part but this must be tempered by the realization that the global economy continues to face major difficulties. Unemployment remains unacceptably high, with little indication of immediate relief. The economic loss and associated social burdens resulting from unemployment are a matter of great concern to governments. Many developing countries have yet to share in the recovery and the outlook for the poorest remains bleak. Although world trade is now expanding strongly once again, protectionist pressures remain strong everywhere. The durability of the recovery demands that we pursue policies that will avoid both a new recession and a resurgence of inflation. During most of this year nominal and real interest rates have been rising, reflecting continued concern over the future course of inflation and the conflict between private and public demand for credit. Their rise has resulted from the extraordinarily rapid growth of the U.S. economy and the impact of interest rates set in U.S. financial markets on interest rates around the world. Although world output is now growing again at a healthy rate, the benefits of the recovery remain unevenly distributed. Current high real rates of interest threaten its continuation and the economic and social well-being of industrial and developing countries alike.

The United States has provided a remarkable boost to worldwide recovery through increasing export opportunities for other countries. There are, however, two worrying aspects of its performance, particularly for those developing countries that are struggling to pull themselves out of an extraordinarily difficult debt situation with minimum social and political disruption.

The first is the threat of protectionism. The U.S. Administration, to its great credit, has not yielded to easy short-term solutions at the expense of the multilateral trading system that has served us well. But pressures continue to build and will remain relentless.

The second is the high level of real interest rates which continues to impact adversely on other countries, adding to the difficulty of debtor nations, and increasingly threatening the sustainability of the expansion in the United States itself.

Government debt and deficits are very much on my mind as I begin to assess Canada's economic situation. Clearly, Canada is not unique in the nature of its problems nor in the policy directions that must be pursued. Real growth in 1984 in Canada is generally expected to be about 4 1/2 per cent, and the outlook is for a significant slowing next year. I am concerned about the adverse implications of such a slow-down for employment. And, as worrisome as this prospect may be, it could become worse if we continue on our present policy course.

The government I represent was elected to bring about change and we are committed to do so. Our top priority will be to introduce new policies that generate investment and provide sustained growth. But, while policy change is needed, it is crucial to bear in mind that the process of restoring the vitality of the Canadian economy will be lengthy and difficult.

Lower real interest rates are essential to support sustained expansion and to provide us with the ability to reduce fiscal imbalances. The United States is critical in this regard. But we cannot use this as an excuse for inaction. The situation requires a demonstration on our part that we are prepared to put our own fiscal house in order.

As the Managing Director has so aptly noted, deficits around the world exploded because traditional fiscal probity yielded to the political pressures that rising expectations generated. The consequent build-up of public debt, however, has increased our vulnerability to high real interest rates and threatens our ability to achieve sustained growth and high employment. As the Annual Report of the IMF points out, deficits in Canada are destined to absorb historically high proportions of people's savings if we continue along the same path as the previous administration.

The expectation that large deficits are likely to persist indefinitely is, itself, becoming a serious obstacle to growth. While a deficit in any given year generally supports economic activity the path of deficits over time over time can worsen prospects for sustained growth. The accumulation in debt that such deficits imply, will hinder our ability to grow in many ways. It encourages inflationary expectations which can put upward pressure on current interest

rates. It increases real interest rates which can shift income away from risk capital and labour to debit holders. Moreover, because deficits bias output away from productive private sector investment and towards public expenditure, they can lower the long-term potential growth rate of the economy.

The growing debt burden places a serious constraint on economic policy and leaves us increasingly vulnerable to economic events beyond our control. In order to achieve maximum feasible growth it will be necessary to tackle the deficit successfully. Moreover, a credible plan of action to constrain the growth of debt is necessary to build business and consumer confidence, on which our economic objectives are so dependent.

In taking the difficult decisions necessary to get our deficit under control I want to emphasize that this will not be done at the expense of the underprivileged in our society. Indeed, the social safety nets are an important element in maintaining consumer confidence. Ours is a government of compassion and it will not inflict hardships on the poor in its efforts to restore our economy to health.

In addition to a responsible fiscal stance, monetary policy must continue to be carried out in a prudent manner. In many countries, including Canada, inflation is currently lower than it has been for over a decade and there is no sign of a significant upturn. However, it should not be forgotten that inflation rates remain significantly above the levels experienced in the 1950s and 1960s and even current rates pose longer-term threats to efficient performance.

Governments can and must provide a sound economic framework. But it is the private sector which generates the investment essential for growth and the productive jobs which yield rising real incomes. Sound fiscal and monetary policies thus must be supported by measures to increase competition and remove structural rigidities. Such measures will play a central role in our economic program.

Economic growth and job creation depend critically upon investment. Our policy framework will be designed to encourage business expansion in Canada by domestic and by foreign investors. Let me state clearly that the welcome mat is

out once more: Canada is a good place to do business; we are opening our doors to those who want to share in the tremendous opportunities with which we have been endowed.

The new Canadian Government faces a formidable challenge in renewing our economy. It cannot do the job alone. We intend to provide the leadership and direction; our goal will be to forge a consensus among governments, business, and labour. The success of our program will ultimately depend upon their response. This government has the political will to adopt the necessary economic policies; it is the private sector that will have to work and invest for a more productive future.

The situation we face in Canada, Mr. Chairman, with large deficits and a rapidly accumulating debt, has parallels in many developing countries. And the remedies for these problems are broadly similar. Sooner or later realities must be faced and economic equilibrium must be restored.

I am happy to note that the courageous adjustment programs of many developing countries, supported by multilateral cooperative efforts, are beginning to show results. Their external imbalances have narrowed. Exports are higher, permitting increased imports and accelerating growth. Over the next few years, however, major debtors will have to cope with a heavy schedule of maturing debts. To service these debts and maintain an acceptable rate of economic development will require perseverance with adjustment efforts.

Sound adjustment means that an economy becomes dynamic, productive, and stable, that it produces rising standards of living for its citizens. Governments of debtor nations have an additional incentive to persist with policies in this direction. If they are successful they will attract investment that will reinforce their efforts. Domestic entrepreneurs as well as foreign investors shirk economies burdened with debt and lacking discipline. They will look more favourably on opportunities that open up as conditions improve. It is a lesson that we in Canada have drawn for ourselves: we intend to practice what we preach.

Debtor nations which do pursue appropriate policies deserve support and encouragement. Private creditors must continue to demonstrate flexibility in dealing with those countries which respond to their debt problems with realistic and effective policies. For our part, governments in the industrial countries must provide adequate financial support through the multilateral institutions and through bilateral development assistance, particularly to the poorest. A key benefit of greater private investment in the major debtor countries is that it will free up scarce resources allocated to development assistance to allow a greater share to go to those most in need.

Turning to IMF operational matters, Mr. Chairman, there are two issues requiring our attention. The first is the question of the continuation of the policy of enlarged access to Fund resources and the access limits which should apply next year. I think we all agree that enlarged access has permitted the Fund to make a valuable contribution to the process of adjustment. While the world economy has improved considerably since 1982, the highly uncertain current situation suggests that the policy should be continued for another year. At the same time, I recognize that enlarged access is a temporary measure and should be gradually phased down. I welcome the agreement reached in the Interim Committee for its contribution to each of these goals.

The other major item on the Fund side is the question of an allocation of SDRs. Relevant to our consideration of this issue is the rebound in world trade and the consequent prospect of an expansion in the overall demand for official reserves. The global need for reserves can likely be met in forms other than the SDR. However, in support of the objective of strengthening the role of the SDR in the international monetary system, it would be appropriate if we were to satisfy some of that need through modest SDR allocations. I regret that we have not been able to find a consensus on this matter.

The two main issues confronting the World Bank are the problems of Sub-Saharan Africa and the Bank's own future role. The situation in most of Sub-Saharan Africa has become increasingly desperate. We commend the World Bank and the countries in the region for the efforts they have made so far in dealing with this pressing problem. Nonetheless, as noted in the Bank's report, the crisis facing this region can only be resolved through major

structural changes, some of which may be painful and require several years to implement. Canada is already making a concerted effort to direct a major portion of its aid program to the African region in helping those countries attempting to implement needed changes. We stand ready, however, to join with the other major countries, the World Bank, and the Fund to do whatever is possible to increase not only the volume, but more particularly, the effectiveness of the assistance we are providing.

As the World Bank examines its own future, it will have to consider the debt-servicing problems of many of its clients. The Bank has made efforts to innovate and respond to changing needs by introducing new financing techniques and programs.

While we are in general agreement with the efforts the Bank has been making in tailoring its programs to the current financial situation, we believe that future changes in its policies and programs should be firmly based on its traditional strengths as an investment institution. Moreover, we will wish to ensure that the World Bank's position in the financial and capital markets as the premier development finance institution be maintained.

In order to do many of the things being proposed there will no doubt be a call for additional resources. We are pleased that the recent Selective Capital Increase was finally approved and, albeit at a lower level than most of us would have preferred, the Seventh Replenishment for the International Development Association is now in place. I am pleased that the Development Committee this week endorsed Canada's proposal that there be an intensive review -- I would suggest in early 1985 -- of IDA's resource situation.

Finally, Mr. Chairman, I welcome the decision that we will examine current problems in a medium-term context in meetings of the Interim and Development Committees next spring. This idea was introduced by Canada at the London Summit. It found widespread support at the meeting of Commonwealth Finance Ministers last week in Toronto and I was pleased to pursue this initiative here over the past few days. I think it is indeed appropriate that we look at the challenges to development and related balance of payments and adjustment

issues over a broader horizon. In that framework we can also see whether the efforts of the IMF and World Bank can be strengthened to the benefit of all of us.

Mr. Chairman, I began by expressing my admiration for the Fund and the Bank and the commitment of their members to international cooperation. I am confident that if we follow through in that spirit, pursuing policies both at home and internationally that promote better economic performance in a realistic and disciplined framework, we will achieve a better world. I will return to Canada to take on the heavy agenda that our own economic problems have created for me more secure in the knowledge that a community of interest provides a close bond with my colleagues from around the world. This is a reassuring thought as I begin my challenging tenure.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate Release

Ottawa, September 27, 1984
84-144

SALES TAX INCREASE TO PROCEED AS SCHEDULED

Finance Minister Michael Wilson announced today that the government has decided it must proceed with the 1 percentage point increase in the federal sales tax already scheduled to take effect October 1, 1984.

The increase was originally proposed by the previous government in the April 1983 budget in order to finance its Special Recovery Program.

"The previous government committed funds in the April 1983 budget that it counted on recouping by levying the tax increase," Mr. Wilson said. "In effect, those funds have already been largely spent. They have left us to pay the bills and the cupboard is bare."

"I am announcing the implementation of the increase now to eliminate any uncertainty that may exist," Mr. Wilson said.

Legislation for the increase will be introduced as early as possible in the new Parliament. As originally announced, the increase will be effective during the period October 1, 1984, to December 31, 1988.

The tax is applied at the manufacturers' level. The general sales tax rate will move to 10 per cent from 9, the rate on construction materials will go to 6 per cent from 5 and the rate on alcoholic beverages and tobacco products to 13 per cent from 12.

Mr. Wilson also said that he is currently reviewing the outstanding policy matters of the previous government and will be making further statements over the coming weeks on their status and the government's decision in regard to them.

S.N. Poddar, Director
Tax Analysis and Commodity Tax Division
(613) 996-8267

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Immediate release

Ottawa, October 1, 1984
84-145

NEW ISSUE OF CANADA SAVINGS BONDS PLANNED THIS FALL

The Honourable Michael Wilson, Minister of Finance, announced today that a new issue of Canada Savings Bonds will be offered to investors this Fall. The new series will be available for cash starting October 24. Further details, including the rate of interest to be paid, will be provided around mid-October.

The October announcement will also specify the rate of interest to be paid on all outstanding and unmatured Canada Savings Bond issues for the year commencing November 1, 1984, the issuance date of the new bonds.

Last year's bond issue currently provides for an annual rate of return of 9.66 per cent for the one-year period ending October 31, 1984 (9.25 per cent for the initial seven months and 10.25 per cent for the remaining five months) and a minimum of 7 per cent a year after that until maturity. Series 37, issued November 1, 1982, provides for the same annual return for the period ending October 31, 1984 and a minimum of 8.50 per cent a year after that until maturity. All other outstanding and unmatured bonds earn 10.50 per cent for the year ending October 31, 1984 with a guaranteed minimum of 10.50 per cent in subsequent years to maturity.

Mr. Wilson reminded holders of Canada Savings Bonds Series 27, issued in 1972, and Series 30, issued in 1975, that these bonds mature on November 1, 1984 and will not earn interest after that date.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, October 10, 1984
84-151

MORATORIUM ANNOUNCED ON "QUICK-FLIP" SCIENTIFIC RESEARCH TAX CREDIT INVESTMENTS

The Honourable Michael Wilson, Minister of Finance, today announced a moratorium on the issuing of so-called "quick-flip" Scientific Research Tax Credit (SRTC) investments after today.

He said questions have been raised about the efficiency and effectiveness of this investment vehicle and a period is needed for a complete review of it in consultation with interested groups.

The government is firmly committed to improving incentives to expand the level of research and development activity in Canada. The Minister expressed support for the aims of the existing R&D program, saying it addresses a real need to direct tax incentives to R&D-performing firms and that these aims should be continued.

"As we indicated during the recent election campaign, the quick-flip mechanism should be reviewed in order to ensure that the maximum possible benefits flow to those actually performing research and development," he said.

Mr. Wilson said that for the duration of the moratorium, only common equity shares will be entitled to the SRTC benefit. But such shares must comply with criteria governing shares qualifying for the share-purchase tax credit.

In order to ensure a fair transition, agreements in writing entered into on or before October 10, 1984 or arrangements evidenced in writing and substantially advanced before that date will be allowed to proceed.

"I have asked officials in my department to carry out discussions with various groups in industry to gather views on whether the basic goals of existing R&D programs are being achieved in the most efficient manner," the Minister said.

The officials have been asked to complete their consulations early in the new year.

For further information contact:

Mr. David Holland
(613) 992-1282

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Immediate release

Ottawa, October 11, 1984
84-152

TERMS OF NEW SERIES OF CANADA SAVINGS BONDS ANNOUNCED

The Honourable Michael Wilson, Minister of Finance, today announced that the 1984-85 series of Canada Savings Bonds will offer investors 11.25 per cent interest in the first full year and a guaranteed minimum of 7.00 per cent in each of the following six years to maturity in 1991.

Mr. Wilson also announced that the individual purchase limit for bonds of this new series will be $75,000. "This limit, however, will not restrict holders of maturing series S-27 and S-30 bonds from converting the full principal amount of their certificates coming due November 1," the Minister said. "The maturing amount can be additional to the $75,000 limit."

Mr. Wilson said he anticipates "strong public demand for the new issue because of the attractive first-year return as well as other valuable features of CSBs." He also emphasized that the 7.00 per cent rate offered after the first year "is a minimum and, as in past years, may be adjusted upward."

Canada Savings Bonds of the new series (S-39) will go on sale Wednesday, October 24, and no accrued interest will be charged when purchased up to and including November 7. However, as for past series of CSBs, the Minister reserves the right to terminate sales at any time at his discretion.

The Minister also announced that for all other outstanding series of unmatured Canada Savings Bonds, the rate of return for the year commencing November 1, 1984 will be increased to 11.25 per cent. For all remaining years to maturity, the guaranteed minimum annual rates will continue to apply: 7.00 per cent for S-38, 8.50 per cent for S-37 and 10.50 per cent for all other series.

THE NEW SERIES

The new series will be dated November 1, 1984 and will again be offered in two forms - Regular Interest Bonds which pay interest annually by cheque or direct deposit, and Compound Interest Bonds, on which interest is left to accrue and compound annually to maturity.

.../2

Investors may cash the new bonds at any time. There will be no interest penalty for bonds redeemed after December 31, 1984; no interest will be paid on bonds of this issue cashed during the initial two months from the November 1 date of issue. Interest on this series will accrue on a monthly basis. In cases where Regular Interest Bonds are redeemed during the months of September and October in any year, unearned interest will be deducted from the redemption proceeds and a full year's interest will be forwarded to the investor on the following November 1. This procedure facilitates the preparation of annual interest payments.

The bonds may be registered only in the name of bona fide residents of Canada, estates of deceased persons, or a trust governed by certain types of deferred savings and income plans, including Registered Retirement Savings Plans, Registered Home Ownership Savings Plans, Registered Pension Plans, Deferred Profit Sharing Plans, Employee Profit Sharing Plans, Registered Retirement Income Funds, and Registered Education Savings Plans.

No person may have a beneficial interest in this series greater than $75,000. However, there will be an exception to this purchase limit for holders of the 1972/73 (S-27) and 1975/76 (S-30) Series of Canada Savings Bonds which mature this fall. Holders of these maturing series can convert the full principal component of the redemption proceeds into the new issue without affecting this year's purchase limit.

Investors may purchase their bonds at banks and other authorized sales outlets including investment dealers, stock brokers, trust and loan companies, credit unions and caisses populaires. In addition, some 10,000 firms and organizations across the country will operate Payroll Savings Plans to permit employees to acquire bonds by payroll deductions.

Both types of bonds will be available for cash purchase. Only the Compound Interest Bonds are offered under the Payroll Savings Plan and the Monthly Savings Plan. Sales under the Monthly Savings Plan will not extend beyond November 7 and individual purchases on this Plan will be subject to a minimum amount of $1,000 and a maximum amount of $10,000.

On Compound Interest Bonds, accrued interest is compounded automatically after the first year. The rate at which compound interest is earned will be equal to the simple annual interest rate payable for that year.

Both types of bonds are registered as to principal and interest. The Regular Interest Bonds offer the convenient option of direct deposit of interest. Investors wishing to have annual bond interest deposited directly into their chequing or savings account may make the necessary arrangements where they normally bank. Both types of bonds will be offered in denominations of $300, $500, $1,000, $5,000 and $10,000, while a $100 bond will also be available in compound interest form only.

.../3

OUTSTANDING ISSUES

As with past rate adjustments on Canada Savings Bonds, payment of the higher return will be made according to the series and type of bond as follows:

a) Series dated November 1, 1977 to 1983 inclusive:

Regular Interest Bonds of these series will now earn simple annual interest at the rate of 11.25 per cent for the year beginning November 1, 1984. As a result, holders of Regular Interest Bonds will receive an annual interest payment of $112.50 per $1,000 bond on November 1, 1985.

Compound Interest Bonds will earn simple annual interest at the rate of 11.25 per cent and compound interest at the rates shown below for the year beginning November 1, 1984. The value of each $1,000 Compound Interest Bond as of November 1, 1984 and November 1, 1985 is also illustrated.

Series	Compound Interest Rate	Value at November 1, 1984	Value at November 1, 1985
1977/78 (S-32)	11.33%	$2,185.03	$2,431.91
1978/79 (S-33)	11.46%	$2,070.64	$2,305.86
1979/80 (S-34)	11.33%	$1,895.15	$2,109.16
1980/81 (S-35)	11.25%	$1,696.15	$1,886.99
1981/82 (S-36)	11.25%	$1,478.93	$1,645.31
1982/83 (S-37)	11.25%	$1,228.27	$1,366.45
1983/84 (S-38)	11.25%	$1,096.67	$1,220.04

b) Series dated before November 1, 1977:

Holders of the outstanding unmatured series dated before November 1, 1977 will earn 11.25 per cent for the year beginning November 1, 1984. The cash bonuses payable at maturity raise the rate of return applicable to these series from the original rate printed on the bond certificates. Previous adjustments to the cash bonus payments raised the effective annual return on the face value of the bonds to 12.00 per cent for the year beginning November 1, 1979, 14.41 per cent for the year beginning November 1, 1980 (11.50 per cent for the first five months; 13.75 per cent for the next two months, 16.25 per cent for the following two months and 18.50 per cent for the remaining three months), 19.50 per cent for the year beginning November 1, 1981, 12.00 per cent for the year beginning November 1, 1982, and 10.50 per cent for the year beginning November 1, 1983. The bonus payable at maturity for each series is as follows:

Series	Maturity Date	Cash Bonus Per $100 Bond Payable at Maturity
1972/73 (S-27)	Nov. 1, 1984	$39.75
1973/74 (S-28)	Nov. 1, 1985	$48.27
1975/76 (S-30)	Nov. 1, 1984	$28.23
1976/77 (S-31)	Nov. 1, 1985	$35.69

.../4

Investors who redeem bonds of these series before their maturity date will not be entitled to the cash bonus payment, but only to the original rates of return payable, as printed on the bond certificates. As in the past, bondholders may continue to cash annual interest coupons and still be entitled to the cash bonus payment. Where applicable, compound interest continues to be payable at the original rates, as specified on the bond certificates.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate Release

Ottawa, October 25, 1984

84-156

POLICY ANNOUNCED ON USE OF LIMITED PARTNERSHIPS TO FLOW OUT TAX BENEFITS TO INVESTORS

The Honourable Michael H. Wilson, Minister of Finance, announced that he and the Minister of National Revenue, the Honourable Perrin Beatty, have agreed that Revenue Canada will no longer provide advance rulings on the income tax consequences arising out of the use of limited partnerships and other joint venture arrangements to "flow out" unused tax deductions and credits by corporations to investors.

A number of corporations have sought rulings from Revenue Canada on transactions in which the benefits of after-tax financing could be obtained through the use of limited partnerships. Since the application of the Income Tax Act to limited partnership and other joint venture financing arrangements is uncertain and is not the subject of explicit provisions, most corporations seek advance tax rulings as an early step in formulating such arrangements.

The Minister indicated that he and Mr. Beatty were concerned with the tax-shelter opportunities provided by limited partnerships and other similar financing arrangements.

The Minister noted that many joint venture arrangements represent a form of after-tax financing whose underlying purpose is to transfer, or flow out, accelerated capital cost allowances, investment tax credits and other deductions from a corporation that is not in a position to utilize them to outside investors who are able to take immediate advantage of the tax benefit.

.../2

Mr. Wilson noted that there are rules in the Income Tax Act that are explicitly designed to prevent tax-sheltering by way of a transfer of deductions. Examples are the special limitation on the deductibility of losses on leasing transactions, and the provisions relating to term preferred shares which are designed to prevent the conversion of taxable interest into dividends that are non-taxable to banks and most other financial institutions. Before these provisions were introduced, leasing and term preferred shares were used extensively by corporations as a method of after-tax financing by which unusable tax deductions were effectively transferred to investors.

Mr. Wilson also noted that, in addition to tax policy considerations, the government was concerned with the very significant cost to both federal and provincial governments if these arrangements are proceeded with. He said that if Revenue Canada were to provide favourable rulings to those arrangements that have already been discussed in representations made to the government, the cost in terms of reduced federal and provincial revenues would exceed $1 billion.

The Minister added that he is undertaking a review of government economic programs, in particular tax incentives, to determine how they might be better structured. The review will focus on the rules relating to the transfer of tax incentives as between corporations and investors. He said that, while he believes such transfers between companies within a corporate group should be better accommodated by the tax laws, there should be limits to the use of tax-shelter financing by unrelated investors.

For further information at Revenue Canada, contact:
Mr. Leslie Smith
Information Services Branch
(613) 995-2287

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, October 31, 1984

84-161

NEW LAW ON INJURIOUS IMPORTS TO BE PROCLAIMED

The Honourable Barbara McDougall, Minister of State (Finance), announced today that it is the government's intention to proclaim the Special Import Measures Act on November 13, 1984.

Mrs. McDougall said that the Act, passed in the last session of Parliament, will modernize and streamline Canada's laws dealing with imports injurious to Canadian producers. She added: "The new legislation will establish a system as responsive, efficient and effective as those of Canada's trading partners while at the same time being fair and open to public view".

The Special Import Measures Act will replace the existing Anti-dumping Act and amend other import legislation relating to countervailing duties, safeguard measures and measures taken to protect Canada's trading interests.

For further information, contact:
Peter McGuire
International Economic Relations
Division
(613) 996-5465

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 2000 hours EST

Ottawa, November 21, 1984
84-172

Notes for an Address
by the Honourable Michael Wilson
Minister of Finance
to the National Editors and Writers Society-Business
Toronto
November 21, 1984

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

I want to say first how much I appreciate the opportunity to address the National Editors and Writers Society - Business at this particular stage of the government's mandate.

With my economic statement about two weeks old it gives me a chance to reflect on the response it has generated -- both in the media and on the street.

Initially the focus was on the deficit and expenditure-cutting elements, but more recently attention has shifted to the discussion paper called "A New Direction for Canada: An Agenda for Economic Renewal." This agenda paper will be the focus of extensive national consultations leading up to my first budget in the spring.

As editors and writers and, above all else, interested Canadians, you will play a key role in the public discussions that will help determine just how successfully we Canadians will face the challenge of economic regeneration.

The initial public reaction has certainly been encouraging. Most people have welcomed our analysis of the country's problems and look forward to the job of meeting them in a spirit of resolute optimism. Of course, there were some who dismissed the whole thing as just another political exercise with "smoke and mirrors".

Come to think of it, however, the analogy of smoke and mirrors is not entirely irrelevant to the challenges set out in the agenda paper. The seriousness of our intentions could well be described by the old saying, "Where there's smoke, there's fire." And you could say that when we held the mirror of truth up to many facets of government activities and performance, we found ourselves facing, among other serious problems, a financial fire about ready to burn out of control.

The judgment of September 4 tells us that millions of Canadians share our view of the need for change. But it's not just the government facing that need -- it's all of us.

I have been straightforward and candid with Canadians in laying out the challenges and problems that we as a country face in renewing our economy. We see the challenges as fourfold.

First, we must put our own fiscal house in order so that we can limit, and ultimately reverse, the massive build-up in public debt and the damaging impact this has on confidence and growth.

Second, we must redefine the role of government so that it provides a better framework for growth and job creation and less of an obstacle to change and innovation.

Third, we must adopt policies that foster higher investment, greater innovation, increased international competitiveness and a positive climate for the birth and growth of new enterprise.

Finally, we must bring about these changes in a way that is fair, open and consistent with the basic sense of compassion, tolerance and justice that is characteristic of Canadian society. We will not weaken the basic income support programs that have served Canadians well. Indeed, through stronger economic performance we will seek to provide even greater assistance to those Canadians who truly need it.

By rising to these challenges -- and ultimately prevailing -- we will renew the economy and, most importantly, begin to put Canadians back to work.

As we focus our sights on economic renewal and job creation, no obstacle is larger or more menacing than the federal deficit. Tonight I want to focus for a few moments on the crucial link between deficit reduction and job creation.

How is it that so suddenly the deficit has exploded on the scene as a major policy priority? After all, we know that a deficit in any given year is not necessarily in itself a major problem. Governments have routinely run deficits during periods of recession which they count on recouping by way of increased tax revenues when the economy is growing.

But Canadians are beginning to understand that, over the past decade, the federal government has run deficits not only in recession years, but in growth years too, and the trend toward higher deficits has accelerated. Deficit stacked upon deficit, year in, year out, has produced an accumulated debt of alarming proportions. This year, the national debt will be a staggering $190 billion, or the equivalent of every Canadian family owing $24,000. Something is seriously wrong.

I have been making a linkage between the growing debt burden and its impact on job creation. That link between high deficits and employment shortages is no less real for being indirect. Continued high deficits and growing debt put upward pressure on interest rates and increasingly undermine confidence, thereby conspiring to suffocate growth and job creation prospects. Let me explain further.

First, the effect on interest rates. If the government, year-after-year, borrows more and more heavily -- as we in Canada have done -- interest rates will be pushed up. Furthermore, as the federal debt increases and interest payments consume an even higher proportion of revenues, markets tend to become edgy about the possibility that the government will resort to "printing" money to finance its deficits. This fear of future inflation causes investors to demand a risk premium on long term debt and long term interest rates to rise.

The upshot is that investment plans are left on the shelf. Business requires a higher "hurdle" rate of return for new projects. Factories are not built. Businesses are not expanded. Machinery is not bought. And jobs that would have been created with all this activity remain on the drawing board.

Another consequence of high deficits and accumulated debt is the shift of real income away from job-producing equity investment to greater and greater holding of government debt. When government needs to borrow to pay off a rising debt, it is forced to offer more competitive real interest rates to induce people to invest in government debt. However, money attracted by government to finance the debt is investment lost by the private sector that could productively generate employment.

Finally, there is the all-important question of confidence, both foreign and domestic. When a government allows its deficits and debt to get out of control, lenders and investors begin to view the country as a poor risk proposition. They begin to think twice before they commit their funds. Not only does the country cease to attract investment money, but funds begin to flow out of the country in search of safer investment elsewhere.

The government has made controlling the deficit its number one task because creating jobs for Canadians is our chief priority. The situation is a little like setting about to renew an old home. Before we can renovate and expand the home, first we must make sure that we get rid of any rot that is weakening the superstructure. In Canada's case, the deficit is eating away at the underpinnings of our economy. Only by dealing with the deficit can we restore business confidence and spur the productive investment that is indispensable to renewal and job creation.

When we first saw the books after taking office in September, it was apparent that we had to act decisively on the deficit. During the election campaign, when we did not have access to the books, we shared the expectation that the deficit would fall when interest rates finally begin to decline. What we did not expect to discover -- as I indicated in my economic statement -- is that had we done nothing the deficit would actually have risen next year and would have remained above this year's level for the rest of the decade even if interest rates fell to more normal levels and economic growth were moderately strong.

This is so because of the simple phenomenon of compound interest. Interest costs are increasing about $4 billion each year just on the annual increase in the national debt. We have reached the point where $25 billion of the $35 billion deficit will be simply to pay the interest on the debt in the next fiscal year, while the debt itself will continue to grow. And the frightening fact is that under these conditions the national debt is rising faster than the economy is growing.

We have begun our task of controlling the deficit in a prudent and far-sighted way. The expenditure cuts and other measures I announced in my economic statement give a solid start to our program. They will hold next year's deficit

at $34.9 billion, a level only marginally larger than this year's and considerably below the $37-billion-plus projected deficit we inherited. This is the first installment. We have set ourselves a goal of reducing government spending by $10-$15 billion by 1990. This goal is, we believe, realistic and responsible.

Overall, I believe our spending cuts and re-ordered expenditure priorities will result in more jobs for Canadians. I am convinced -- and the feedback I have had from the private sector reinforces my conviction -- that the renewal in consumer and business confidence inspired by a return to responsible economic management will be strongly positive for economic growth.

Of course we could have responded to the debt problem differently. One option would have been to acquiesce in the status quo approach of the previous government. But as the most recent economic projections indicate, this would have led to an appalling state of national debt, with all its accompanying ills, in fairly short order. By 1990, our national debt would have reached $410 billion, or the equivalent of every Canadian family owing $54,000. For obvious reasons, we had little difficulty rejecting that option.

Another option would have been to try to treat the situation with stimulative financing. Yet nothing short of a massive injection of stimulus would have had any initial effect on growth or employment. With the deficit for this year already $5 billion higher than was projected in last February's budget, deliberate and massive stimulation would have left us in a very precarious position. The country would have sunk more deeply into the quagmire of national debt and long run prospects for growth and employment would have been seriously harmed. The cost in lost investor and consumer confidence would have been lost jobs in future years.

The other option we had was to chop the deficit dramatically and ruthlessly right at the start. But this draconian approach would have undermined confidence and threatened social cohesion. The costs of adjusting to such a sudden wrench in the economy would have been high and our collective ability to deal with our structural problems would have been undermined.

There has been criticism of some of our cuts -- but relatively little when you consider the range. I think that is because there is a growing acceptance of the need to face the deficit/debt problem. Even the leader of the opposition and the opposition finance critic have called for a reduction in the deficit. They agree with our fundamental goal. Yet both opposition parties have picked away at our means of achieving some deficit reduction.

I encourage you not to over-emphasize the importance of any individual expenditure reductions while losing sight of the broader debt problem. It is a problem we cannot walk away from. It is a problem we cannot ignore. If we do allow ourselves to defer action, the numbers become very clear. The problem in 1990 will loom twice as large. Our exposure to a repeat bout of high interest rates similar to 1981 would be very dangerous.

We are not on an ideological or philosophical crusade. Rather, we simply recognize the intractable nature of the problem which will not go away.

Of course, we have been living up to our election promises consistent with our pledge to improve the economy and to assist Canadians over the course of our mandate.

Look for instance at our thorough review of the country's financial situation and at the true picture we made public -- in detail. That is a major promise fulfilled. Consider the other promises fundamental to the success of economic renewal: our commitment to reducing the burden of government debt and to providing the means for the private sector to function as the primary vehicle for economic growth; fuel tax relief to assist primary producers; extension of the spouses allowance; veterans pension improvements; initial tax relief for petrochemical industries; a major commitment of more than $1 billion for job creation; a first step towards market pricing for oil -- all matters signalled during the election campaign. Finally, our belief in the need for consultation, for working co-operatively with all sectors of the economy and all regions of the country. We have acted in these areas.

We will move forward in full consultation with Canadians. Consultation is a central part of our mandate for change. The process will not be an exercise in evasion. Clearly, our actions to date have already confirmed our determination to act when it is appropriate.

However, we know that Canadians want to be consulted and they want to be heard. Our mandate of September 4 provides an opportunity for a truly national response to the complex economic problems facing our country. We want to carry that response -- that national involvement and national commitment -- to all aspects of our program for economic renewal.

The Prime Minister and I as well as other ministers have already met with provincial leaders. Further consultations are planned, including a national economic conference involving all the major sectors of the Canadian community. We are not just asking but challenging Canadians to make their views known to us.

My economic statement and the Agenda for Economic Renewal provided the basic background and set out an extensive summary of the issues to be examined. I am looking forward to a lively and productive national discussion of all the issues.

Some have suggested that the questions posed in the Agenda paper will limit the scope of the debates to come and, more importantly, pre-determine the nature of the actions to follow. I don't apologize for that. We do have a good idea of the directions we should follow. We want a freer, more flexible, more self-reliant economy -- one where there is less government and more room for the private sector. But we do not have all the answers. We have made no claim even to having posed all the relevant questions. Indeed, we have made a special point of describing the questions in the Agenda paper as a beginning for some very major discussions and certainly not a comprehensive, all-inclusive structure for the consultations. It's an open process for open minds -- and that's exactly how the government will continue to approach it.

There are tough choices, tough decisions to be made. The issues are not black and white and the choices are not "either-or". Some very careful balances will have to be achieved through consultation and consensus. Single-interest reactions,

proposals based solely on self-interest, will not be helpful. Let's take off the blinders and face reality. Economic renewal requires that all Canadians accept their responsibility in the overall need for change. And that means accepting change in our own backyards -- not just the other person's.

We are relying on Canadians -- business and labour leaders, women's groups, professionals and communicators like yourselves -- to think through the issues. It is up to all of us to ensure that the consultation period now underway contributes to better understanding of the issues and also between economic groups in our society.

I would especially urge the media to participate fully in our efforts to break free from the conventional wisdom of the past. The media has often played a constructive role in the process of change in Canadian society. It would be sad if, in a society moving forward to face new challenges, the media gave greater voice to the "new reactionaries", the protectors of the status quo, those who would see government as the answer to all our problems.

The emerging debate about possible changes in social programs illustrates the critical need for good will and good sense in the effort to build a consensus. The issue of change in our social programs is only one of several challenging questions to be discussed in the next several months, yet it has become the prime focus of media attention.

I am particularly concerned that the debate about protecting the integrity of basic social programs should not turn into an exercise which provokes fear among those in need. We have demonstrated the clear intent of our social policy by redirecting some of the savings in our cost-cutting exercise toward enhancing the spouses allowance and veterans' benefits.

We believe our social programs should be based on a broad concept of fairness that embraces the fundamental principle of helping most those in greatest need. Under the graduated personal income tax system, the net after-tax value of universal elderly and family benefits has been greatest for those with the least income. One of the options put forward in the Agenda paper would improve the

targeting of the benefits through further tax recovery measures. We look forward to discussing all the options in a constructive spirit of realism and fairness.

We have asked some probing questions in other areas as well -- about regional development, about the pace of adjustment to change in declining industries, about our trade relationship with the U.S. and about our energy future. We intend to provoke a serious national debate in some areas where previously these topics were rarely discussed politically. We do so because past policies have not been working.

We are moved also by the hard reality of an economic world in which investment and jobs can move easily across national borders to the benefit of those who stay economically attractive, competitive and innovative and to the detriment of those who don't.

The shift of investment and jobs is more than just the simple mathematics of addition or subtraction. What is at stake here is the fundamental capacity of the country to meet the economic and social needs of its citizens. And that is ultimately not a mathematical challenge but a human one. It is a challenge too long ignored, avoided or deferred.

For years now it has been conventional wisdom that federal finance ministers have had little or no room to manoeuvre in fiscal and economic policy-making. They have been widely seen as threading their way through the variously perceived risks of aggravating the deficit, unemployment or inflation if they leaned too far in one direction or another. After only two months in the job, I can appreciate the general tone of that analysis, since I am sure that it implies a welcome degree of sympathy for the occupant of this interesting office.

Nevertheless, I believe that the perception of fiscal and economic policy-making as the perpetual prisoner of cruel circumstances has been too convenient for too long. It has lent itself all too well to the kind of directionless drift that has resulted not only in high deficits and a huge debt but in high unemployment and a critical lack of confidence in the economic future.

It is time to stop rationalizing failures of economic and fiscal leadership on the grounds that there is no room to manoeuvre. We must recognize that the economic and financial problems facing this government and this country have gone far beyond solution by mere manoeuvres, by trying to fine-tune government policies that have long since failed to get the job done.

It is time to embark on a new direction, to remove the constraints on the capacity of both the government and the economy to work efficiently and successfully for the benefit of all Canadians.

That is the challenge we have grasped. That is the journey we have undertaken. I believe it is a journey well started with substantial support from all parts of the Canadian community. We are under no illusions that the journey will be an easy one or that consensus will magically appear on all the tough issues on the agenda. We will have to work, and work hard, for the progress that we make in the coming months of consultation and the coming years of economic renewal.

But it is equally important that you in the media also rise to that challenge, that you contribute to a greater understanding by Canadians of these issues. Because out of that better understanding will come better decisions on the direction our future will take. The discussion papers now being prepared -- indeed, the very range of items we have put up for public debate -- ensure that you will have the basic means to play a full role in this vital process.

The government has pledged itself not to act hastily or with insensitivity. But it has above all pledged itself to act to get the government and the economy working effectively in the interests of all Canadians. The years of drift and delay have ended. Now it's time for a new direction, for the new growth, jobs and opportunities that will fulfill the great promise of the future.

Department of Finance Canada

Ministère des Finances Canada

Release

Communiqué

Immediate release
Ottawa, November 27, 1984
84-174

The Honourable Michael Wilson, Minister of Finance, announced today that gross sales of the 1984-85 Series of Canada Savings Bonds reached a total of $12,743 million as of November 27.

"After allowance for redemptions of past Series since the beginning of October, net purchases of the new bonds to November 27 amount to $9,768 million -- an important contribution to meeting our large cash requirements," the Minister said.

Included in the gross sales figure is $1,534 million of bonds purchased through the Payroll Savings Plan. This represents an overall increase of 17 per cent over the same time last year and a new record payroll sales total.

"I want to thank employees and organizers across the country for their co-operation in this important undertaking," Mr. Wilson said.

Cash and Monthly Savings Plan sales of this year's issue of Canada Savings Bonds were discontinued on November 7, 1984. Bulk applications for payroll sales were accepted up to November 20, 1984.

Publication immédiate
Ottawa, le 27 novembre 1984
84-174

L'honorable Michael Wilson, ministre des Finances, a annoncé aujourd'hui que les ventes brutes d'Obligations d'épargne du Canada de l'émission 1984-85 ont atteint $12,743 millions au 27 novembre.

«Compte tenu des remboursements d'émissions antérieures effectués depuis le début d'octobre, les achats nets des nouvelles obligations s'élevaient à $9,768 millions au 27 novembre -- une contribution appréciable pour combler nos importants besoins financiers,» a affirmé le ministre.

Le chiffre des ventes brutes comprend les $1,534 millions d'obligations achetées selon le Mode d'épargne-salaire. Cela représente une augmentation globale de 17 pour cent par rapport à l'an dernier et un nouveau record de ventes selon ce mode d'épargne.

«Je tiens a remercier les employeurs et organisateurs de tout le pays de leur coopération au cours de cette importante entreprise,» a précisé M. Wilson.

Les ventes au comptant et selon le Mode d'épargne mensuelle des obligations de la nouvelle émission ont été discontinuées le 7 novembre 1984. Les demandes de souscriptions collectives selon le Mode d'épargne-salaire ont été acceptées jusqu'au 20 novembre 1984.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 1200 hours Est

CA1
FN

Ottawa, November 28, 1984
84-175

Notes for an Address
by the Honourable Michael Wilson
Minister of Finance
to the Canadian Tax Foundation
Toronto
November 28, 1984

CHECK AGAINST DELIVERY

I am pleased for this opportunity to address the Canadian Tax Foundation so early in my tenure as Minister of Finance. The Foundation has made, and continues to make, an indispensable contribution to the discussion and resolution of tax problems in Canada. As finance minister, I am a grateful beneficiary of your expertise and your devotion to excellence. Let me take this opportunity to thank you and your director, Doug Sherbaniuk, for your dedicated work in the past and for the assistance I know I can count on in the times ahead.

In this era of accumulating deficits, any new finance minister could hardly be faulted for wondering if, despite the old saying, nothing is so inevitable as debt and taxes. The other inevitable event is, we hope, a little more remote.

Our national debt has grown to such an extent that it is now undeniably the major obstacle to economic growth and progress. Because we cannot accept the debt as inevitable, the government has decisively charted a new direction for the Canadian economy. It is outlined in the document A New Direction for Canada: An Agenda for Economic Renewal which I tabled with my economic statement earlier this month.

The new direction is reflected in the four major challenges set out in the agenda paper.

First, we must put our own fiscal house in order so that we can limit, and ultimately reverse, the massive build-up in public debt and the damaging impact this has on confidence and growth.

Second, we must redefine the role of government so that it provides a better framework for growth and job creation and less of an obstacle to change and innovation.

Third, we must adopt policies that foster higher investment, greater innovation, increased international competitiveness and a positive climate for the birth and growth of new enterprise.

Finally, we must bring about these changes in a way that is fair, open and consistent with the basic sense of compassion, tolerance and justice that is characteristic of Canadian society. We will not weaken the basic income support programs that have served Canadians well. Indeed, through stronger economic performance we will seek to provide even greater assistance to those Canadians who truly need it.

Some critics suggest that the priority we place on deficit reduction somehow implies a reduced priority for job creation. They are gravely mistaken. I believe that confidence is the key to growth and job creation and that deficit reduction is the key to rebuilding confidence.

When an accident victim arrives in the hospital emergency room, the doctor's obvious first responsibility is to stop the hemorrhaging. Then he proceeds to try to diagnose and correct whatever other serious injuries or ailments would prevent the patient from returning to full health.

Despite the limited time available, we had no choice but to face both those responsibilities on November 8. And so we addressed the need for both short and long-term action in a very careful and thoughtful but also very determined way.

We are building toward a budget in the spring with an intensive round of consultations on the broad spectrum of policy issues raised in the agenda paper.

In addition to the problem of the deficit and the accumulated debt, the paper addresses a number of major factors underlying private sector growth, questions of adaptation to economic and technological change, issues of regional development and the question of economic regulation and intervention by government.

I could not hope to elaborate in my time today all that this agenda paper covers. In other recent speeches I have dealt extensively with the problem of the deficit and the debt. Today I want to take a closer look at some tax issues with basic importance for the goal of economic renewal.

The tax system has been one of the principle mechanisms for achieving the economic and social objectives we, as Canadians, believe are important. Regrettably, the inherent nature of taxes themselves invariably deny tax architects their just share of public praise or recognition. Indeed there are probably few areas of life that continue to be so predictably maligned. Yet it is to their credit that tax specialists and those in public finance persist in improving the tax system for all. As Minister of Finance I share your chief aim of creating the best possible tax system for Canada -- one that is as fair as possible and that fosters the growth and productivity of our country.

As we embark upon a new direction in economic and fiscal management, the changing economic and social needs and stresses we face have implications for our tax system. We are counting on it to continue to serve, usefully and effectively, the economic and social well-being of Canadians. We are therefore determined that the tax system should continue to be responsive to changing demands, to new realities. It must harmonize with the new direction we are pursuing to attain economic renewal. My colleague, the Minister of National Revenue, has already discussed the improvements we are making in the area of tax administration. We will persist in reviewing the tax system, not simply from the standpoint of revenue, but equally in terms of its impact on economic growth, equity and simplicity. Indeed, a thorough scrutiny of the various dimensions and effects of the tax system must be an essential counterpart to our immediate task of reducing government spending.

The general tax system may, in some respects, fail to serve current economic needs such as investment and deficit reduction in an appropriate way. The entire area of incentives provided to business investment is one we have flagged for close attention.

Clearly, many features contained in the tax system support investment and business growth. The investment tax credit, the accelerated capital cost allowance and the lower corporate tax rates for manufacturing and processing and small business -- all have had a salutary impact. Our most recent figures indicate that the effect of tax incentives has been to reduce the average federal corporate income tax rate from 36 per cent of profits to 15 per cent. The rates for small business are even lower.

What we are asking ourselves, and what we wish to ask the business community, is whether the existing level of direct financial support to business in our shifting economic circumstances is still warranted. If so, what level should it be and what form should it take? There is no question that government must create a positive and stable climate for investment. That is fundamental. Must we not ask at the same time, however, whether tax provisions and government programs are unduly influencing -- even distorting -- the sound economic grounds upon which business decisions ought to be made?

We must ask to what degree we can substitute tax incentives for direct government programs. It is clear that some shift in this direction is needed and desired. The business community has been increasingly critical of the red tape, bureaucratic discretion and delay associated with some of the existing grant programs. It has made no bones about its preference for tax-based incentives. The Prime Minister has said we must deliver government services more efficiently by relying more heavily on the tax system and less on the grant system.

For my own part, I expressed concerns last month in asking whether the economy and the goal of economic growth would be better served by fewer rather than more industrial incentives. I have been especially concerned that our large array of incentives may contribute to the excessive use of tax shelter financing of various sorts. That is why I placed a moratorium on the issuing of so-called "quick-flip" scientific research tax credit investments; and why I moved to stop advance tax rulings on the use of limited partnerships and other joint venture financing arrangements to flow out unused tax deductions and credits to investors.

At a time when reducing the deficit is so crucial to our goal of economic renewal and growth, the effectiveness of our incentives must come into question. It is only reasonable that we should look to see if legitimate savings can be made within the financial assistance structure as part of our overall effort to reduce costs. As I emphasized in the agenda paper, the whole issue of flowing out or transferring tax credits warrants a thorough review. Increasing the ability to transfer tax deductions and credits within corporate groups deserves serious consideration and could reduce the complexity of business operations.

As we look toward the private sector to be the effective force behind renewed economic growth, I am concerned that the combined level of grants and incentives is in its own way a serious impediment. Particular activities qualify for very high rates of incentives, especially under certain grant programs. When the benefits from special tax incentives are added, we are looking, in some cases, at an extraordinarily generous level of assistance. And I am left wondering if we have encouraged an environment leading to the best allocation of resources, or one which is not in tune with market realities.

Let me give you one concrete example, though others exist. The tax system contains a special regionalized investment tax credit at a 50 per cent rate in certain regions. Taking into account the tax write-offs, the tax assistance for eligible projects is as high as 75 per cent. Combined with grants under the Industrial and Regional Development Program, the level of assistance can reach as much as 90 per cent. And it only stops at that level because of an ad hoc rule under the grant programs which tries to take the applicable tax incentives into account. Where provincial assistance is available, the problem is aggravated further. Obviously, the question of levels of assistance will have to be discussed just as seriously as that of changing the ways we deliver incentives.

It would be a mistake, however, to think that the review of incentives is primarily a search for ways to save money. I attach considerable importance to improving the incentives themselves and the review could suggest ways of doing that. Judicious changes might lead to a more even pattern of incentives that

could provide broader-based benefits to a wider range of businesses. Such a pattern might be more conducive to the proper functioning of the marketplace and to better economic growth than has been the case.

In the meantime, we can point to a number of other increasingly evident problems with the current system. It is clear, for example, that grant programs relying on the discretion of administrators cause problems, not the least of which is the time it takes to get an approval. Time is too valuable. Decisions have to be made quickly. Obviously, the main advantage of the tax system is that it allows a business to make an independent assessment of whether or not it qualifies for an incentive. That advantage, however, may be lessened if complexity in the act leaves the taxpayer uncertain about his or her eligibility to use an incentive. This itself places a limitation on the demands we can make of the tax system to deliver highly-targetted programs. We must also recognize that if tax incentives unduly complicate the tax system and tax administration, the kind of criticism that is currently directed at grants can also be aimed at incentives.

All these factors indicate that our system of tax incentives and grants is out of step with our current needs and attitudes about the role of government. It is out of touch with sound business principles of efficiency, effectiveness and competitiveness.

There may indeed be considerable scope for rationalizing the tax and grant incentives programs in a way that is consistent with our goals of economic efficiency and deficit reduction. However, it must be stressed that the tax system cannot be viewed as the only vehicle for delivering all the goals of the government. As my agenda paper stated, tax incentives and direct government programs have very different structures, administration and effects on industry and consequently there are real differences in the types of benefits that can be delivered by each mechanism. The tax system is a good mechanism to deliver broad-based reductions in rates or broad-based tax credits. Such broad-based measures may serve our needs better than excessive efforts at targetting. But it is clear that the tax system cannot do it all.

I would stress at this point -- and stress emphatically -- that any measures in the realm of tax incentives have to be taken with utmost caution and with the full involvement of business and their tax advisers. We will be consulting at every step of the way on the kinds of questions I have raised. And I believe this process of review and consultation should be an ongoing one. It would be useful, for instance, to put some specific tax measures up for discussion and review following the next budget for possible action in the subsequent budget.

Another area where we are determined to make headway is in simplifying the tax system. Both business and tax professionals have reiterated the need for tax simplification for a number of years and it is high on the list of this government's priorities. The small business tax simplification package tabled in Parliament is a good start and will be welcomed by all. Indeed, the Tax Foundation can take considerable credit for this start. It was the symposium on tax simplification the foundation sponsored in July 1983 that was the catalyst in advancing this particular exercise in simplification toward a legislative phase.

We can extend simplification further, being mindful that the process requires painstaking care and wide consultation. While there are many dimensions to the pursuit of simplification, the experience on the small business side has taught us that two objectives in particular stand out as important. First, to develop clearer and less complicated tax legislation and explanatory information; and second, to ease the compliance burden by reducing the number and complexity of forms and other documents.

We have learned that these objectives are best achieved if simplification has a high priority when basic tax policy decisions are made. Simplification has to become something of a state of mind for tax designers. It also has to be kept in mind by all who press to see changes in the tax laws. The decisions at this stage frequently involve weighing simplicity against the demands for precision and fairness. Often, simplification can only be achieved with substantive changes in tax policy.

As a general principle, simplicity should hold sway wherever tax provisions affect the ordinary Canadian. Provisions dealing with common personal deductions are a case in point, as are provisions dealing with a wide range of business considerations such as the small business area. We can tolerate a

greater degree of complexity in tax measures that are generally handled by professional tax advisers. Yet even here, the guiding principle should be to avoid the complexity that burdens businesses with unduly harsh compliance costs and that impedes their ability to make important decisions.

The finance department is exploring areas where simplification might be effected. We shall be consulting with the private sector and tax specialists and practitioners as we proceed. I encourage the Tax Foundation to play a leading role in identifying areas where our tax law needs to be simplified and ways we might suitably make it happen.

The Prime Minister has said that the next budget will contain minimum tax proposals. I noted in my economic statement that I will be releasing a discussion paper early in the new year as background and substance for the necessary review of the issues involved. In a society built upon the principles of equity and fairness, it is reasonable that Canadians earning high incomes should pay taxes to help finance the public services everyone enjoys. Yet between what is reasonable and what is reality, there currently exists a significant gap. Available evidence indicates that a significant number of high income Canadians are paying no personal income tax or unacceptably low amounts.

Maintaining respect for the income tax system is an essential part of preserving public confidence. That respect can be undermined when the tax system persists in allowing some of the "better-off" in our society to appear to be not paying their fair share.

One of the reasons for this situation is the growing range of tax incentives introduced over the years. Individually, these credits and deductions offered by the income tax system have served useful and beneficial economic and social ends, and in most cases continue to do so. Their combined impact, however, is another question. The wide range of incentives has enabled many high income Canadians to avoid paying any personal income tax or to pay a disproportionately low amount. It is this impact that has raised public concerns.

The need for measures to ensure that all Canadians bear their fair share of the tax burden is widely accepted. The major question is how this can be achieved without adversely affecting the tax system elsewhere. In this issue, as in so many other tax issues, the challenge is to achieve fairness without undermining incentives for Canadian investment. And in striving for a more equitable system, we must be mindful not to complicate it unduly. It could be a questionable trade-off if countless Canadians not directly affected by the changes had to cope with a more complex tax return.

A number of different ways to achieve a minimum tax are possible and each, in turn, has a range of possible designs. We should not expect that any will be simple to implement.

In considering how we might tackle the problem, I would mention here at least two broad approaches for discussion. First, limits could be put on those individual tax provisions that are heavily used by the people earning high incomes who pay no taxes. Indeed, the evidence shows that a limited range of provisions could be accounting for the vast bulk of non-taxable, high income individuals. Such targetted restrictions would appear to be a logical step. Some such changes arguably would represent improvements to the structure of the income tax. But this approach poses its share of difficulties. Restricting a particular set of provisions now does not guarantee that a few years hence the increased use of other provisions may not generate a new call for another round of restrictions. While this approach would no doubt go a considerable distance in curtailing the number of non-taxable individuals, it does not address the combined effect of all tax provisions. Some may well argue for a more comprehensive approach.

A second possible approach to the problem would be to construct a more comprehensive definition of income for the purposes of a minimum tax. This approach effectively limits the tax benefit of special tax preferences. This is generally the basis on which the American minimum tax system currently operates. Once again, however, difficulties abound. Chief among these is the sheer complexity involved in having to redefine income for such a tax. And if our goal was to produce a measure of income that is comprehensive and refined, we would end up effectively rewriting the Income Tax Act. However, in

moving away from this goal there is a concern that inappropriate results could occur while many techniques for tax reduction available to wealthy Canadians would still not be affected.

I am not suggesting that we should necessarily opt for either of these approaches. But for purposes of constructive discussion, we will have to ask how far we should go. And how difficult would it be for taxpayers to comply?

The American experience has not revealed any ideal solution. Indeed the Americans have fluctuated between both the approaches I have mentioned.

The question of a minimum tax is an important one, but not a simple one. The forthcoming discussion paper will, I hope, be a seminal document and I look forward to it prompting much constructive response. I am sure the Tax Foundation and its members will be helpful and active participants in the discussions to follow.

We intend to focus attention on the budgetary process itself and other aspects of the income tax system in a discussion paper I shall be issuing within a few months. Both the budget process and the income tax system have been increasingly criticized by tax professionals and the general public. Indeed, the impression that Canada's system of developing, enacting and administering tax laws is inefficient and unfair is now widespread. We want to begin the process of reversing that impression with open discussion as soon as possible.

One particular area that has drawn fire is the provisional collection of taxes before Parliament has enacted relevant legislation. I would foresee that the present "voluntary" system of provisional collection might give way to legislation that requires by law compulsory payment of proposed taxes. This lawful authority could be founded, for example, on the approval of the Ways and Means Motion.

I am convinced that the time is ripe to improve the Parliamentary process of turning budgetary proposals into tax laws. Part and parcel of this effort is to involve the public more meaningfully in the development of budgetary proposals. I look forward to consulting with interested Canadians as we move towards these important improvements.

As part of our ongoing review of the tax system, other possible changes of a more fundamental nature will be explored and assessed. We have heard considerable discussion here, pro and con, about a "value-added" tax as a possible substitute for the current federal sales tax. And there has been talk about a "flat" tax as a possible alternative to our current personal income tax. We do not view the adoption of either of these as in any way imminent. Such dramatic changes would have important federal-provincial implications, not to mention the important bearing on business and Canadians generally. But we will continue to study any options that might eventually be of benefit to Canadians.

Indeed, benefitting Canadians is the final thought I want to leave you with today. As we grapple with the technicalities, the subtleties and the complexities of our tax system, we must never lose sight of the citizens it is ultimately meant to serve. That is what our efforts are all about. The real bottom line is people.

I think you will agree that we have much to challenge our ingenuity as we strive to improve the tax system. With your continued assistance, I am confident we can have a system that will help renew our economy and that will measure up to the standards of fairness Canadians rightfully expect.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 1230 hours EST

Ottawa, December 7, 1984

84-182

Notes for an Address
by the Honourable Michael Wilson
Minister of Finance
to the Financial Times Conference
Toronto
December 7, 1984

CHECK AGAINST DELIVERY

I first want to express my gratitude to the Financial Times for inviting me to give the keynote address at this conference today. It is a pleasure to be here and to see so many old friends and colleagues.

The theme you have been discussing -- "Financial Services: The Next Move" -- is both a critical and a timely one. In an age of relentless change, nowhere is the impetus for change more intense than in the financial sector. Nowhere is it felt more immediately than by financial institutions straining to remain competitive, and by a government intensely concerned to promote competition within a responsible regulatory framework.

As an "alumnus", so to speak, of the financial sector, I take a keen personal interest in the developments that are currently evolving. As Minister of Finance I have proprietary responsibility for the health of the financial sector. In that role I can benefit greatly from the many significant insights that emerge during the course of a conference such as this.

I have alluded to the impetus for change that dominates our times and our economic life. In my remarks today I want to talk about the approach the government is taking, both to encourage change where our economic lives depend on it, and to foster change where it can promise a better economic future for all.

The government has made its first major "move" to renew a Canadian economy that has been in recent years a sluggish underachiever. In my economic statement last month I made some tough decisions where I felt they could be made and I laid out a plan by which all Canadians can participate in charting "the next move" in Canada's economic rejuvenation.

The task has not been easy, nor do I foresee it getting any easier. But I believe it is crucial to the success of our effort and to the future well-being of our society that all Canadians see and understand the direction we are moving in and why. I have hammered home at every opportunity the four challenges that define our economic policy direction.

First, we must put our own fiscal house in order so that we can limit, and ultimately reverse, the massive build-up in public debt and the damaging impact this has on confidence and growth.

Second, we must redefine the role of government so that it provides a better framework for growth and job creation and less of an obstacle to change and innovation.

Third, we must adopt policies that foster higher investment, greater innovation, increased international competitiveness and a positive climate for the birth and growth of new enterprise.

Finally, we must bring about these changes in a way that is fair, open and consistent with the basic sense of compassion, tolerance and justice that is characteristic of Canadian society. We will not weaken the basic income support programs that have served Canadians well.

We have determined that meeting these challenges is fundamental for the sustained economic growth that will produce much-needed jobs. There is no escaping the fact that they imply some serious decisions -- for the government and for all Canadians. Resolute, responsible action is required now and in the coming years to halt the relentless growth in federal debt and limit its serious consequences for interest rates, private investment and the government's fiscal flexibility.

Although the reduction of the deficit is our overriding objective, there are other complementary policy imperatives we will pursue in the very near future. Real economic growth, the kind that can create permanent jobs, requires a revitalization of the private sector in such a way that it can function according

to its own best instincts. For this, government must be prepared to change policies and programs so that the private sector can flex its muscles and apply its ingenuity, initiative and imagination.

I hope that Canadians recognize all the exciting opportunities -- and not just the serious responsibilities -- of our new approach. As we promised, we are bringing a new way of doing things to the Canadian economy. We are not hidebound by the past nor the past ways that have kept the economy operating below its potential. I know that the financial and business sectors have caught the spirit of renewal in our fresh approach and that they see the enormous opportunities that are being opened up. The response I have received to my economic statement has been gratifying and supportive. It has affirmed my belief that we are on the right track.

To fully realize our possibilities, however, we must get the deficit under control. The national debt is a national emergency. We have begun to deal with it and we must continue to deal with it. One of my major challenges since assuming the finance portfolio has been one of communications -- to help Canadians to see the deficit as the silent menace it is. The deficit danger is a relatively new notion in this country and I am concerned that Canadians may not fully grasp its consequences nor share my concern about it.

In speaking with you, however, I know I am preaching not only to the converted, but to the first prophetic voices. After all, the financial and business communities sounded the distant early warning signal about the deficit and the accumulated debt and were instrumental in raising it in the economic conscience of the nation.

Even though we knew we had, in the deficit, a serious problem to contend with, I don't think anyone was prepared to find quite the colossus it has turned out to be. Any way we look at the numbers, they still look forbidding: a net public debt that will probably register $190 billion this fiscal year and if not curtailed could grow to over $400 billion by the end of the decade; debt service charges currently projected to rise from almost $23 billion this fiscal year to more than $34 billion by 1990-91; interest costs growing by about $4 billion each year just on the annual <u>increase</u> in the accumulated debt; a

national debt that will exceed 45 per cent of GNP this fiscal year and, under the situation we inherited in September, could exceed 63 per cent of our GNP in 1990-91.

Reviewing these numbers has about it the air of confronting some fictional leviathan. The sobering fact is that there is nothing at all fictional about the deficit.

The rising debt burden and debt service costs are a threat to the economic growth that is so crucial to renewing the economy and creating jobs. They threaten economic growth and job creation in a number of ways. By forcing the government to borrow more and more heavily year after year, they exert upward pressure on interest rates. Market psychology being what it is, fears that the government will monetize its deficits to soften the impact cause investors to demand a risk premium on long-term debt and long-term interest rates. These high interest rates, as we well know, stifle investment and inhibit new economic activity.

High deficits and accumulated debt also tend to divert real income away from growth-producing equity investment and into greater holdings of government debt. The government's mounting borrowing requirements compel it to offer more lucrative returns on investment in government debt in order to attract private savings. In our present state of indebtedness, much of these savings end up as interest payments on the debt rather than in productive job-creating equity investment.

Finally there is the crucial confidence factor. We do not need to look at the various debt crises in other countries to know that a nation's inability to manage its debt in a responsible way can kill investor confidence. Both domestic and foreign capital recoils. Far from attracting investment capital, a country with serious debt problems can kiss good-bye to much of its own domestic capital, as it flows out in search of safer investment abroad. We have seen the start of that in the past five years as billions in investment capital have left the country.

These are the destructive consequences of our debt. Nevertheless, there are those professional doubters who persist in arguing that the deficit is not a cause, but merely a symptom of Canada's economic malaise. They have misread our present difficulties entirely. Over the years, the deficits that the federal government incurred in periods of growth as well as in periods of recession were a clear symptom of economic mismanagement and irresponsible spending. Now, accumulated deficits have reached worrisome and intolerable proportions and are of themselves the primary cause of much that is failing or wanting in our economy.

As it now stands, economic growth alone cannot solve our deficit problems. With the real rate of interest currently outstripping the real growth rate of the economy, normal growth in the economy will not pay for the rising interest costs on the national debt. With the debt now largely self-perpetuating, our economy would have to build up a substantial head of steam just to meet the rising interest payments.

The great danger, of course, is that with such a large stock of debt to service, the government's fiscal position is acutely vulnerable to persistently high interest rates. And even if interest rates decline, as we optimistically forecast, the debt will continue to increase.

Although we will benefit by any drop in American interest rates, we cannot bank on that alone. We must halt the momentum of our own deficits if we are to position ourselves to benefit from any favourable developments in the U.S.

In this connection, my recent talks with the Reagan administration and Congress have persuaded me that the United States will indeed move as we have anticipated to cut its deficit. I am hopeful that action will result in lower interest rates that will reverberate in Canada.

I am convinced, as I know you are, that we have made the right decision to tackle the deficit. The actions we have taken -- the expenditure cuts and other measures I announced in my economic statement -- will put a brake on the deficit starting next year. Instead of rising to $37-billion-plus next year, the

deficit will hold at $34.9 billion, fractionally above this year's figure. Our aim to reduce government spending by $10-$15 billion by 1990 is, I believe, prudent and reasonable.

I have devoted considerable attention up to this point to the "evils" of the deficit and the need to bring it under control if we are to achieve economic renewal. It is the most pressing problem we face and it justifies our immediate action. But I would not want my concentration on the deficit to hide the other major initiatives we are taking. We consider them just as important.

The fact is that our approach to renewal is a balanced, wide-reaching one. It spans the entire realm of social and economic life. The deficit and accumulated debt are by no means the only obstacle to growth in the private sector arising from federal government policy decisions. Over the years government policies and programs have become encrusted on the private sector, often impeding its ability to perform. Generally, these policies and programs were originally intended to serve some specific national objective. The price that frequently had to be paid, however, was in reduced economic efficiency and competitiveness. In today's fiercely competitive world marketplace, where a high percentage of our products are subject to international competition, that is too high a price to pay.

Consider these observations. In some sectors, government regulations are inhibiting much needed adjustment to competitive realities in the world marketplace. In other sectors, government subsidies have distorted market signals in a manner that encourages production for which there is no demand and discourages production that could be sold in Canada or abroad. In yet other sectors, government services and activities, either directly or through Crown corporations, needlessly pre-empt private entrepreneurship. Indeed the marketplace has become congested by government policies that over-regulate, over-protect, misdirect, distort, inhibit and generally obstruct. We are suffocating the entrepreneurial and competitive instincts that can make us truly competitive in the world marketplace.

How we can go about identifying all the specific obstacles to private sector growth, and then achieve agreement on what action to take, is a challenge of extraordinary dimensions. But it is precisely the challenge we are putting to ourselves and to Canadians. Nothing less than nation-wide collaboration will be required. That, in fact, is my intention in tabling the landmark document "A New Direction for Canada: An Agenda for Economic Renewal" with my economic statement. I intend the agenda document to be the first step to economic renewal in the private sector. The agenda paper establishes the basis for a systematic review of our economic and social policy, government regulation, and key areas of policy, including R&D, export markets, labour markets and private sector investment, to name a few. I hope the agenda paper will stimulate lively and constructive discussion in all sectors and across the broad spectrum of policy interests.

You don't have to delve deeply into the agenda paper to realize there are tough decisions to be made. Be assured, they will be made. We are not in this exercise just to perform symbolic gestures. My colleagues and I have determined that the only realistic route to follow in dealing with our economic problems is an active one. And if we are to do the job right, it must be on a large scale -- a scale that covers the entire economy.

Our idea of effective action is one that includes the consensus and support of all Canadians. We will make every effort to enlist their help and understanding through an extensive series of consultations. Once we have consulted -- once all views have been assimilated -- we will act.

Of the many areas we will be looking at, I want to touch very briefly on the financial services sector. The financial services sector, like many other sectors, is a prime candidate for regulatory change. Rapid developments in the sector are creating immense pressures for regulatory reform. I recognize the urgency of the situation. Indeed, modernizing the regulatory framework for financial institutions is consistent with the strategic role we believe the sector can play in helping economic renewal.

After all, efficient capital markets and the smooth transfer of savings from lenders to borrowers is vital if Canada is to attract not only the quantity, but the quality of investment we need to be competitive for the rest of the decade. An effectively operating financial sector goes a long way toward building and buttressing confidence in our economy.

That is not to say that our regulatory system and financial institutions have not performed well in the past despite the stresses of sharp cyclical swings in economic growth, interest rates and inflation. Institutions have proved themselves nimble and flexible in the worst of times. However, the current regulatory framework has not come to grips with the evolving needs of the financial community or the public.

While we are determined that government regulation should not be an obstacle to the efficient functioning of the financial marketplace, we recognize that financial institutions are different from other businesses. They are in a unique position of trust in our society. This qualitative difference must be respected as a matter of ongoing principle when we are considering regulatory change.

The importance of public trust and confidence for the smooth and stable functioning of the financial system is reflected in the primacy federal and provincial regulation has always accorded to the notion of solvency. And maintaining adequate protection for savers remains paramount. There can be no compromise, no risks taken, on that score.

I have been keeping a watchful eye on the recent developments in the financial services sector. The finance department has been looking at the issues intensively and my colleague Barbara McDougall, the Minister of State for Finance, will be meeting with the Dimma advisory group shortly.

I note with interest other studies into the financial sector. The interim report of the Ontario task force on financial institutions, under the chairmanship of Stefan Dupré, is due shortly and will be examined closely by all interested in the sector. The Ontario Securities Commission hearings on the ownership structure of the securities industry are producing a wide range of differing views, not only between industries, but within industries too.

I have also been watching with interest the regulatory initiatives taking place in the province of Quebec, and particularly Bill 75 amending the Act regulating Quebec-chartered insurance companies. It is still difficult to gauge the full impact of Bill 75 on the financial industry both in Quebec and the rest of the country. The bill moves along a different track than we have seen in Canada previously. The key issue, to my mind, is whether the level of supervision and safeguard provisions in the new regulatory framework are adequate to protect the interests of the consumer.

These developments point to the importance of federal-provincial co-operation if we are to succeed in harmonizing the regulatory frameworks of the provinces and the federal government. This will be a true test of the co-operation all of us have called for time and again.

I said we are moving ahead. The government will be issuing a public discussion paper early in the new year and this will provide substance for wide ranging consultation with the financial industry, its users, and the provinces. The paper will advance specific proposals for comment and we'll be looking forward to the reactions of the industry.

I am conscious of the need for these proposals to address the kinds of hard questions that are of major concern to industry participants.

For example, how can the regulatory framework be modified to increase the flexibility of institutions in adjusting to changing technologies and shifting markets while still retaining necessary safeguards to ensure the stability of the system?

Another important question involves the kind of regulation which should be imposed on the activities of financial institutions, and in particular on their ability to invest directly in Canadian businesses. For example, do the restrictions on pension funds and life insurance companies governing which firms and which type of securities they may invest in, balance appropriately the current financial needs of the economy and the need to protect savers?

Another question. How can we ensure that our regulations neither drive away foreign investors and participants, nor unnecessarily handicap our own institutions in competing effectively abroad?

And this. How do we ensure that regulations not go beyond legitimate public policy goals and not impose an excessive and unfair burden on some institutional groups as opposed to others?

These and other questions will be addressed in our consultations in the near future.

In passing, I want to mention the Canada Deposit Insurance Corporation. The sequence of events that transpired in 1983 revealed the need to examine the operations and objectives of the deposit insurance system to ensure that the mandate of CDIC is fulfilled fairly to both depositors and member institutions. I am pleased to note, therefore, that a review is already underway which is considering all aspects of deposit insurance.

The Minister of State for Finance will be taking the lead in the federal government's participation as we approach what I believe will be constructive and fruitful changes in the regulatory regime. We are anxious to move rapidly following this round of consultations to the introduction of new legislation for federally-incorporated insurance and trust companies and for the federal level of the co-operative credit movement. I am confident we shall.

As the government moves to reduce the deficit and as we launch a major offensive to unleash the private sector to be the force for growth it must be, the question being asked is how will the private sector respond. Will it deliver the goods? Will it indeed invest? Will it create the jobs we must have for Canadians?

This is a question only time will answer. And it would be unrealistic to expect overnight results from an approach that aims at real and lasting renewal by being deliberate, scrupulous and comprehensive, and by going to the heart of problems that have grown up over many years. But I have been enormously encouraged by the feed-back I have been getting from the private sector.

They tell me that yes there is a new climate of optimism in Canadian business; yes, there has been a restoration of confidence in our future business prospects. And as we move toward a spring budget -- our next move -- drawing on the expertise and assistance of Canadians, yes we can expect tangible improvement in the year ahead.

I am counting on the financial and business communities to take an active role in the deliberations leading to my budget in the spring. I need your guidance. I want your participation. The judgments and decisions we face are too important, too far-reaching, not to reflect the interests and expertise of all segments of Canadian society. There is simply too much at stake. With your help, the job can and will be done.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Immediate Release

Ottawa, December 10, 1984
84-183

WITHDRAWAL OF GPT ON RED LAKE C PIGMENT DYESTUFF EXTENDED THREE YEARS

The Honourable Barbara McDougall, Minister of State (Finance), today announced that the benefit of the General Preferential Tariff (GPT) rate on imports of Red Lake C pigment dyestuff will be withdrawn for a further three-year period, effective December 11, 1984.

This action was recommended by the Tariff Board in a report tabled in Parliament on November 9, 1984. The Board found that Dominion Colour Co. Ltd., of Toronto had suffered injury in its production of Red Lake C pigment dyestuff as a result of imports from South Korea and India, and the Board concluded that Dominion Colour would benefit from continued withdrawal of the GPT.

The effect of this order is to maintain the customs duty on imports of the pigment dyestuff from South Korea at 13.4 per cent under the Most Favoured Nation Tariff and imports from India at 10 per cent under the British Preferential Tariff. The customs duty on the imports from both countries would have reverted to the GPT rate of 8.5 per cent on December 11 had the withdrawal not been continued. The matter will be subject to Tariff Board review before the expiry of the three-year withdrawal period if any further extension is requested by the Canadian producer.

For further information, contact:

Brian Finch
Tariffs Division
(613) 996-5885

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

CA1
F20
-C55

Ottawa, December 13, 1984

84-186

ENERGY CONSERVATION INCENTIVE EXTENDED

The Honourable Michael Wilson, Minister of Finance, and the Honourable Pat Carney, Minister of Energy, Mines and Resources, today announced the indefinite extension of an income tax provision for accelerated depreciation on a wide variety of energy conservation equipment used by businesses.

This provision, under Class 34 of Schedule II to the Income Tax Regulations, allows such equipment to be written off on a straight-line basis over three years at rates of up to 25, 50 and 25 per cent, respectively.

Class 34 was created in 1976 to promote energy conservation. It was broadened at the end of 1979 and now includes specified equipment which either conserves the use of oil, substitutes other fuels for oil, or employs renewable energy sources. Mr. Wilson said today's announcement will remove any uncertainty faced by business over the pending expiry of the Class at the end of 1984.

Certification of equipment eligible for the Class is the responsibility of the Minister of Energy, Mines and Resources. Miss Carney said she was particularly encouraged by the prospects for the certification of new small hydro and "energy from waste" projects. She said she expects that the tax incentive will be an important factor in the decision of businesses to make additional energy conservation investments.

For further information, contact:

R.I. Simkover
Tax Policy and Legislation Branch
(613) 992-1541

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 1500 hours EST

FN

Ottawa, December 14, 1984
84-187

Notes for an address
by the Honourable Michael Wilson
Minister of Finance
to the Alberta Economic Society
Edmonton, Alberta
December 14, 1984

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

It is a pleasure for me to be in Alberta as part of the national consultations that will lead up to my first budget in the spring.

I've been doing a lot of listening during this process but I also appreciate the chance to speak to groups such as yours, particularly in a province that has "kept the faith" so stalwartly over the years. Of course I'm referring to your basic belief in the capacity of a dynamic private sector to be the driving force behind a better, stronger Canadian economy. The national government shares that belief and we intend to put our principles into practice.

We have been working for a change in the way government and the economy perform, for new economic growth, jobs and opportunities and for a new approach to the resolution of economic problems. And to accomplish those goals we are going to need a change of attitude in government, in the private sector and on the part of Canadians generally.

In government, we have taken early steps to control a serious financial situation and to demonstrate our faith in the private sector as the major engine of growth and job creation.

We want to build a new consensus and new confidence within the private sector. We need to increase innovation, risk-taking and entrepreneurial activity as part of a positive new attitude toward change and growth.

As Canadian business develops and creates the jobs we badly need, individuals will benefit from a renewed sense of self-reliance and of dignity. It is essential that Canadians be forward-looking, that they face change not as a threat but as an opportunity. It is essential that the needy not feel threatened by government actions -- our commitment to maintaining the social safety nets is clear and strong.

Since my economic statement last month I have been discussing with Canadians the need for new ways of doing things in government and in the economy. I have been greatly encouraged by the feedback I have been getting on the new direction we are charting for the Canadian economy.

In accepting the mandate for change and economic renewal that Canadians gave to this government, we identified four key challenges -- challenges that we must meet if we are to bring about economic renewal.

First, we must limit and ultimately reverse the massive build-up in public debt and the damaging impact it has on confidence and growth.

Second, we must redefine the role of government to provide a better framework for growth and job creation and less of an obstacle to change and innovation.

Third, we must foster higher investment, greater innovation, increased international competitiveness and a positive climate for the birth and growth of new enterprise.

Finally, we must act on these changes in a fair and open way that is consistent with the basic compassion, tolerance and justice that is characteristic of Canadian society.

And we must begin by facing the most serious problem -- the growing mountain of federal debt that is casting such a dark shadow on the country's economic prospects.

Since all of you here today have a professional interest in economics and, I hope, a higher than average tolerance for statistics, I'm sure you will permit me to use just a few numbers to convey the gravity of the federal government's fiscal situation. I've used a lot of words on this subject in recent weeks but mere words don't quite tell the story.

You may recall that the February budget forecast the federal deficit for 1985-86 at just under $28 billion. By November, when I reported to the nation on the government's finances, the projected deficit had risen to more than $37 billion. In nine months, the deficit outlook worsened by more than $9 billion. And it would have been more except for the fact that the previous government budgeted for a decrease of $1 billion in direct job creation programs in 1985-86.

Let's look at debt service and related charges. These totalled $18.1 billion in 1983-84. The February budget estimate for the current fiscal year was $20.4 billion. That figure has risen to $22.7 billion at the latest estimate. The current estimate for these charges in the next fiscal year is about $25.5 billion.

These debt service charges have risen rapidly not only because interest rates have been higher than expected but because the deficit itself has increased over the original estimate by almost $5 billion to about $34.5 billion for the current fiscal year. And it's a self-perpetuating process.

As higher interest rates directly raise the costs of servicing the existing debt and add to the size of the current deficit, they also increase the rate of growth in the stock of debt. This in turn increases the costs of servicing the debt and increases the pressure on interest rates from government borrowing. At the same time, higher interest rates discourage economic activity that would help to ease the pressure on government spending and to increase revenues.

As a rule of thumb, each increase of one percentage point on average in the interest rate raises the debt carrying charges by $800 million per year initially and $2 billion after the increase works its way through the term structure of government debt. But that is a very temporary rule. As the accumulated debt continues to grow, so does the amount represented by each percentage point on the interest rate.

As I made clear in my economic statement, it is the growth in the debt that is causing so much concern not only about the government's fiscal situation but particularly about Canada's economic prospects. The accumulated debt was $71.1 billion on March 31, 1980. Four years later it had risen to $156.2 billion. It will increase a further $35 billion or so in the current fiscal year or by more than 20 per cent to the range of $190 billion. And under the "status quo" projection of the situation that we inherited, that total would exceed $400 billion by the end of the decade. The debt has been growing faster than the economy for the past 10 years and is projected to continue to do so for many years into the future. This cannot continue.

In describing the financial situation inherited by this government, I have used the analogy of an iceberg. The readily visible part of the problem is the deficit -- but it represents only the tip of the iceberg. The real threat is the accumulated debt which has been growing year after year largely below the surface of public awareness -- and which is poised to sink the ship of state unless we act.

The iceberg of debt that I have described to you today is already too large and fast-growing for us simply to steer around it. We've got to confront it and bring it under control.

Of course, fiscal projections are in large part a reflection of the economic outlook. It is important to remember that the government's fiscal outlook is based on a set of relatively favourable assumptions predicated on action by the U.S. government to reduce its deficit and bring interest rates to more normal levels in the United States.

If interest rates do not fall to more normal levels in the second half of the 1980s, our economic and fiscal situation would be even worse. Growth would be lower than the forecast average of 3.4 per cent per year in the second half of the decade and the unemployment rate would remain above 10 per cent instead of falling slowly to 7 per cent by the end of the decade. The federal deficit would continue to increase and would reach $50 billion per year by the early 1990s. And of course the accumulated debt and its self-perpetuating problems would be all the larger.

The changes in the outlook for future deficits since last February show just how sensitive the federal government's fiscal situation is to changes in economic circumstances, and in particular how exposed it is to higher interest rates. What the projections do not reflect is the very real possibility of another severe recession at some time during the second half of this decade if deficits, and hence interest rates, are not reduced to manageable dimensions.

As I demonstrated in my economic statement, the government has rejected the "status quo" outlook as unacceptable in both fiscal and economic terms. We made a measured and responsible beginning on deficit reduction, bringing next year's projected deficit down from more than $37 billion to less than $35 billion. More importantly, we served notice that much more needs to be done and will be done after full consultation with Canadians.

There are tough choices to be made. Unfortunately, there are still many people out there who sincerely believe that we can avoid making these choices. There are those who suggest that the government has made deficit reduction and debt control too high a priority. Let me reiterate that job creation is our number one priority and that's why we are moving to first control and then to reverse the momentum of deficits.

I explained at length in my economic statement how the deficit and the debt are a major obstacle -- in fact, the single greatest obstacle -- to economic growth and job creation. Rising deficits not only put upward pressure on interest rates, they undermine private sector confidence by symbolizing a continuing state of economic mismanagement. Deficits and the mounting debt severely limit the government's ability to meet priority social and economic needs.

Yet, there are still those who argue that the federal government can somehow steer, push or shove the economy back onto a sound course without dealing with the deficit -- indeed, by allowing the deficit to worsen. I use the word "somehow" advisedly because this has to be achieved at the same time as the deficit eats up a larger and larger share of the government's current resources.

Paying the interest on the public debt is already the largest and fastest growing major "program" of the federal government. At $22.7 billion it exceeds the second largest program -- old age assistance -- by more than $11 billion. And that means less and less of the government's fiscal capacity is available for productive economic purposes and for vital social needs.

In short, the deficit and the debt are not only limiting but threatening to cripple the fiscal flexibility of the government to meet its priority needs. And they are impeding the capacity and undermining the confidence of the private sector to get on with the job of investing in economic growth.

This trend has gone too far. It cannot be allowed to continue.

I wanted to underline these basic issues today because we cannot afford to look at the problem of the deficit and the debt in isolation from their impact on the goal of a strong and prosperous country.

I cannot over-estimate the importance of confidence as an ingredient in economic growth. But I doubt that Albertans need convincing on that account -- you have seen what happens when confidence is shattered.

The government recognizes that taking charge of our financial affairs is essential for Canadian business to develop the confidence that encourages investment, risk taking and job creation.

Overall, I believe Canadians generally accept the need for this first round of expenditure reductions. Significantly, I also believe that there is general recognition and support for our decision to redirect some of the savings to those most in need. As we have said, change will not be financed on the backs of Canada's most needy. And in my economic statement we put forward improvements to the spouses allowance and to veteran's benefits. We set aside additional funds for direct job creation.

We must recognize, too, that the government cannot single-handedly bring the economy back to full strength. It's a job for all of us. That's why we have opened such a wide range of fundamental issues for consultation with business, labour, provincial governments -- people from all parts of the Canadian community.

A key issue for discussion and action is the broad area of trade. One of the government's highest priorities is to improve our trade performance. Exports account for more than one-third of our national income and some two million Canadians work in industries that directly or indirectly depend on exports.

We can and we must do better in every aspect of trade development. To be competitive on world markets, we must be effective in applying leading-edge technologies in producing goods and services. Success comes from both producing new technology through aggressive R&D in the fast-growing high-tech sector and using new technology in established businesses and industries.

Once a firm has become competitive we must also address how best to assist it in gaining and securing access to export markets. It is clear that continued and growing access to markets in the United States, our major trading partner, must be a key objective in the ongoing effort to improve economic prospects in this country. As with all the major issues that we have raised for national consultation, we are looking at all the options in an open-minded way. After all, if we are trapped by the past by refusing to consider the possibility of fundamental change, what chance do we have of a full and productive discussion of the issues? And without constructive discussion how can we hope to set positive new directions for the Canadian economy?

While we discuss and work toward improved trade, investment, technology, competitiveness and innovation, we will also be focussing on the training and development programs which will assist workers who will use the new technology and, in some cases, be displaced by it. We are looking for ways to redirect our efforts to help people adjust to economic change and help industries adjust to -- not resist -- the change that will allow them to keep pace with tough international competition. We need your views, suggestions and support on these important matters.

Let me emphasize that we are not pursuing change for the sake of change or as part of a blinkered ideological crusade. For example, if the private sector can do a job better than the government, then that's where the job should be done. But if the government is better suited, then we say let the government do it as efficiently and effectively as possible.

If the experience of recent years tells us anything, it is that government has enormous power to distort economic activity -- sometimes without even trying and almost always with the noblest of intentions. The energy sector is a prime example of the dangers of excessive government intervention and regulation.

You know the story. Domestic oil and gas prices have been set administratively, not by the market. Taxes and incentives have changed radically and with little or no consultation, sometimes in a manner that discriminated against some investors. The burden of legislation and regulation affecting the industry has greatly increased over the last decade. Federal/provincial disputes over energy added to the uncertainty. Confidence was seriously damaged among investors, both domestic and foreign.

As you know, I have emphasized that there are no easy solutions to the kinds of deep-rooted economic difficulties in which Canada finds itself today. But the energy sector provides a good example of how we can move with determination and quickness to encourage productive new activity with very real benefits in all parts of the economy.

There is a better understanding today of the broad economic value of an active energy sector. Oil sands projects, for example, create spinoff benefits across the whole economy. In recognition of the importance of the oil sands we have extended the lower rate of the Petroleum and Gas Revenue Tax that applies to integrated oil sands projects. And we will continue to seek increased oil sands development and production through discussions with sponsors on the fiscal flexibility necessary to stimulate renewed interest in this important source of oil.

In that regard we announced this morning a decision strongly positive for the expansion program which Suncor has been considering for its oil sands mining operation. We will eliminate the Incremental Oil Revenue Tax for oil derived from bituminous sands for 1985 and subsequent years. In addition, the calculation of the IORT for the period 1982-1984 will be adjusted to take account of quality and production problems at the Suncor operation.

I am pleased to learn that this action has encouraged Suncor to proceed with plans for a five-year $500 million dollar capital expenditure program at its Fort McMurray oil sands facility. To underline my remarks a moment ago on the economic benefits of energy activity, I would point out that this project alone would create about 1,100 person years of employment on-site as well as significant employment benefits for Canadian industry in many parts of Canada. And it would contribute to improved energy security for Canada.

This decision underlines the government's commitment to the early revitalization of the energy sector, a commitment demonstrated in many ways in my economic statement. For instance, I announced that we will move toward an oil pricing regime in which the market, not the government, establishes the price of oil in Canada. This change will be of significant financial benefit to the industry.

The Petroleum Compensation Charge has been increased to help stem a massive outflow in the PCC Account but temporary rebates approximately equal to the rate increase will be allowed for farmers, fishermen, loggers and mine operators in recognition of special problems in the primary sectors of the economy. This is an example of the need to provide a "safety valve" mechanism to deal with price shocks to any segment of the population. Above all, however, we have to recognize that the interests of consumers are best protected when a successful energy industry is allowed to get on with the job of finding and developing new energy supplies.

The doubling of the threshold level of the small producers' PGRT credit is another measure designed to help promote exploration, to secure supply and encourage spinoff activity. These measures are only a beginning. We remain committed to a full examination of the fiscal regime in the oil and gas sector and the PGRT in particular.

There is also broad consensus that industry irritants such as the "back-in" must be addressed and we have given our commitment in that regard. A comprehensive review is under way of the closely related subjects of oil pricing, energy taxation and incentives, with particular attention to the discriminatory features of the Petroleum Incentives Program. Consultations with all affected parties is essential. My colleague, the Minister of Energy, Mines and Resources, has been busy on all these fronts.

You know as well as anyone that the problems that must be addressed and solved are not easy ones. But we believe that the spirit now exists among the federal and provincial governments and industry representatives to get on with the job of increasing productive activity in the petroleum industry while shifting away from reliance on government expenditures and regulations and toward market mechanisms and private sector initiatives.

Many industries have been over-regulated in Canada. Others have been over-protected from competition at home and from imports. Some programs originally designed to aid investment have in fact distorted investment decisions and the establishment of companies that are viable only with continued taxpayer support. Many policies will need to be reassessed. Alternatives must be found to permanent subsidization of non-viable enterprises, both private and public.

As you are well aware, a number of government policies have been less than encouraging to foreign investors. My colleague, the Minister of Regional Industrial Expansion, has announced major changes to the Foreign Investment Review Act to encourage new investment. We have already renamed the agency -- Investment Canada -- to leave no doubt for potential investors from abroad that Canada has become a better place to invest. And the Prime Minister underscored this message on Monday in his speech in New York.

It is just more than three months since Canadians gave a clear national signal for change. They voted for new economic growth, jobs and opportunities.

Our government received those signals loud and clear. And we have clearly signalled the directions for change that we believe will get the national economy growing strongly again. This is not just a temporary change, a sort of political chinook blowing outward from the Nation's Capital. We're talking about a permanent change in the economic climate of this country -- a change for the better and in the best interests of all Canadians.

Our objective is to take charge of the government's financial and economic affairs so that private sector creative energies can be released to take risks, improve productivity and create permanent, satisfying jobs. It's time for the private and public sectors to begin demonstrating that their shared interests and goals far outweigh those which separate them. Together, it's time to show that we can get the economy back on course for growth and prosperity.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate Release

December 21, 1984
84-188

AMENDMENTS TO THE CUSTOMS ACT AND THE CUSTOMS TARIFF

The Honourable Barbara McDougall, Minister of State for Finance, announced today that Royal Assent has been given to Bill C-9, an Act to Amend the Customs Act and the Customs Tariff.

The amendments to the Customs Act will give effect to Canada's international commitment, made during the 1979 Tokyo Round of Multilateral Trade Negotiations, to adopt the Customs Valuation Code of the General Agreement on Tariffs and Trade (GATT). Under the new law, which will come into force on January 1, 1985, the value for customs duty will be based on the "transaction value," which is essentially the price paid for the imported goods. Canada's current method of valuing imported goods is based on the "fair market value" of like goods sold for consumption in the country of export.

The amendments to the Customs Tariff will introduce tariff rate increases, recommended by the Tariff Board, that will prevent a decline in the level of tariff protection when the new system for valuation begins. The increases are in line with Canada's GATT undertakings and have been accepted by Canada's trading partners. They will come into effect on January 1, 1985.

Other amendments to the Customs Tariff include the removal of the duty, also effective January 1, 1985, on aircraft parts in line with the expanded product coverage of the GATT Aircraft Agreement, and a number of miscellaneous changes which took effect February 16, 1984.

Reference:

K.F. Gore
Director, Tariffs Division
(613) 993-7921

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Immediate Release

Ottawa, January 9, 1985

85-03

COMMITTEE TO REVIEW CANADA DEPOSIT INSURANCE CORPORATION OPERATIONS

The Honourable Barbara McDougall, Minister of State for Finance, today announced the appointment of a private sector committee to review the legislation and operations of the Canada Deposit Insurance Corporation (CDIC).

It will have a mandate to examine the present system of deposit insurance with regard to the increased workload of the CDIC and the relations between the corporation and the insured public, member financial institutions and provincial governments.

Chairman of the committee is Robert Wyman of Vancouver, chairman of Pemberton, Houston and Willoughby Inc. Members are J.A.L. Colhoun of Toronto, vice-chairman of the board of National Victoria and Grey Trust Company, and André Bérard of Montreal, senior executive vice-president of the National Bank of Canada. The committee will be assisted by Hugh Brown of Burns Fry Limited, Toronto.

Mr. Wyman has many years of experience in Canadian financial markets. He is also Chancellor of the University of British Columbia. Mr. Colhoun is past chairman of the Trust Companies Association of Canada and past president of the Ontario Heart Foundation. Mr. Bérard has extensive knowledge of financial markets and is a director of several corporations.

.../2

Ottawa, Canada K1A 0G5
613 992-1573

The CDIC was established in 1967 to provide insurance protection for depositors in Canadian banks, trust companies and loan companies. The coverage per depositor was originally set at a maximum of $20,000 and was increased to $60,000 in 1983.

In announcing the formation of the committee, Mrs. McDougall noted that "changes in our financial system over the past 17 years, along with the recent difficulties encountered by certain member institutions, have raised questions about the adequacy of the original deposit insurance structure".

The Minister said she is anxious to see the committee move ahead in a timely manner. She thanked the members of the committee for agreeing to undertake this important review and noted that they have agreed to meet in the very near future.

Reference:

G.W. King
(613) 992-5885

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Release at 1300 hours MDT

Ottawa, January 22, 1985

85-11

Notes for an address
by the Honourable Barbara McDougall
Minister of State, Finance
to the Independent Petroleum Association of Canada
Calgary
January 22, 1985

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

I want first to thank the Independent Petroleum Association of Canada for the opportunity to be here today. Let me also congratulate Bob Andrews on his recent appointment as Managing Director of IPAC.

As you know, the main purpose of my visit is to meet with your representatives to continue the consultations which are pointing the way to an important budget in the spring.

As you in the oil and gas industry are well aware, the Minister of Energy has been busy consulting with the industry and with provincial energy ministers toward the goal of developing energy policies in support of renewed growth and investment in Canada's energy resources.

In this phase of preparation for the budget, the government is very much in a listening mode. We want to gather the best advice that we can. We want to bring forward policies that are good for the Canadian economy in detailed application as well as in general principle.

To accomplish that, we need the benefit of the kind of practical experience that you in the oil and gas industry have gained over the years -- although the word "gained" seems hardly accurate for some of your experiences in recent years.

Much as I am here to listen, however, I was honoured to receive the invitation to speak to the general membership of IPAC. Although I am relatively new to politics, I understand that a certain willingness to stand up and make a speech is not considered a drawback in a politician.

The hard fact is, however, that in politics as in most other lines of work, we are ultimately judged not by our words but our deeds. And I can tell you that this government came to power with a very strong sense of the need for action to get government and the economy working better for Canadians in every part of the country.

We are facing this great challenge with strong support from all across Canada, support for which we are extremely grateful. At the same time, however, we have been careful not to confuse the kind of goodwill that exists toward the government with a licence to jump in with sudden and arbitrary changes in policies. Indeed, the government came to power with a clear mandate not just to change things but to do so in an orderly, fair and effective manner that draws on the best that Canadians can contribute to the job.

That is the basis for the consultation process in which we are now involved. I want to take a moment to discuss this important subject.

There are some who, with often worthy motives, advocate a policy of "act now, consult later". I don't deny that there may be times when the urgency of a situation requires just such an approach. But as a general rule, I would say that there is no more certain recipe for making giant-sized mistakes than by relegating consultation to an optional or secondary role.

It's as if the government says, "Don't call us, we'll call you if we get into trouble and need your help getting out." The problem, as you in the oil and gas industry have learned from bitter experience, is that you usually know when governments are getting into trouble long before they do -- and by the time they call you to help rescue them, the damage is already done.

What this government is saying is, "Let's get it right the first time." And that means working together with Canadians in every region and every sector of society.

Let me be as clear as I can on this point: We are not expecting to achieve perfect consensus on every policy option that is translated into action. We recognize the limitations of the consultation process, just as we accept that there will always be conflicting views that cannot be resolved in a country and a society as diverse as ours.

What we do not accept is the view that by engaging in a full round of consultations the government is somehow avoiding its responsibility to make tough decisions -- in short, the responsibility to govern.

On the contrary, the commitment to consult carefully and fully with Canadians is as much a part of meeting this government's responsibilities as will be the policy actions that result from the process. Consultation is an essential part of good government.

I can think of no better argument for the approach we have taken than the excellent contributions that have been forthcoming from your organization on a wide range of vital issues. I can assure you that in my meetings with a number of other private sector groups there has been a consistently high level of discussion and advice. And this experience has been repeated many times all across the government. Virtually every government minister and member has taken part in the consultation round. There will be many more consultation meetings in the weeks ahead.

As you may know, the Minister of Finance met last week with provincial finance ministers. There will be a First Ministers conference on the economy next month and a National Economic Conference in March. Then it will be on to the budget.

Given the scope of the agenda which the government has set out for consultation and ultimate action, the timetable is tight. At the start of the process, we knew that the goals we have set will take years, not months, to achieve. We cannot hope to accomplish everything in the first eight months of our mandate. But I can assure you that we are keenly aware that these are the most important months of our mandate in terms of building and sustaining the momentum for real and constructive change in economic policies.

Before turning to some issues of special interest to those of you in the petroleum industry, I want to take just a moment to review the basic goals, the new directions, which the government has set for itself and for the national economy. The achievement of these goals is as important for a successful energy industry as for any other in this country.

The Minister of Finance put forward four broad challenges in his economic statement in November. The first of these is the need to limit and ultimately reverse the massive build-up in public debt and the damaging impact it has on confidence and growth. We took immediate action in this area and there is more to come.

Second, we must redefine the role of government to provide a better framework for growth and job creation and less of an obstacle to change and innovation; third, we must encourage investment, greater innovation, increased international competitiveness and a positive climate for the birth and growth of new enterprise; and, fourth, as I have already noted, we must bring about the necessary changes in a fair and open way.

These goals are not only complementary, they are in a real sense inseparable. In the same way, government, business, labour and individual Canadians must recognize their reliance on each other -- the need to work together for shared interests -- and to translate that understanding into a working foundation for action.

Clearly, the energy sector has a key role to play in achieving the economic promise of this country -- a role strongly underlined in a recent report on Canada's energy industry by the Economic Council of Canada.

A healthy energy sector is essential to economic renewal in Canada. A few numbers might help to illustrate the point:

- Energy investment accounts for 22 per cent of total investment in Canada and 30 per cent of fixed business investment.

- Energy represents a significant element in Canada's commodity trade; for the first 11 months of 1984, energy exports were valued at $13 billion or 14 per cent of total exports. The net energy trade balance was $8 billion.

- Federal energy revenues represent 10 per cent of federal budgetary revenues.

- The spin-offs to the rest of the economy from a healthy and expanding energy sector are enormous.

This government is committed to changing Canadian energy policy, but not by tinkering with outdated policies. I am referring, of course, to the National Energy Program.

The Progressive Conservative energy policy is based on five goals:

1) Development of a stable policy framework in which energy resources can support growth to the benefit of all of Canada;

2) Self-sufficiency and energy security;

3) Enhanced Canadian participation;

4) Fair treatment for consumers and producers;

5) Co-operation between federal and provincial governments and industry to produce a stable planning environment.

Our policy will mean opportunity for all Canadians through balanced development of all our resources in all regions. Jobs in exploration and drilling mean jobs in manufacturing plants. As noted in your 1983 annual report, a research study has estimated that 55 cents of each dollar of expenditures on machinery and equipment by the Alberta petroleum industry goes to manufacturers in Ontario and Quebec. Every job created in the production of oil and gas is likewise estimated to create two jobs elsewhere in Canada. And we know that jobs and unity go hand in hand.

Your organization has been successful in putting forward strong and persuasive views on a number of key energy issues. Some of those views were reflected in the actions which this government brought forward in the November economic statement. Allow me to review briefly the highlights of those initiatives:

- We have already moved to world prices for gasoline, which we view as the first step towards oil deregulation.

- We have moved towards more flexible prices for domestic and exported natural gas and we are consulting on a more market-sensitive pricing system for natural gas sales within Canada.

- And we began a fundamental review of the fiscal regime for oil and gas, particularly the PGRT.

- We announced an increase in the Small Producers' Credit for the Petroleum and Gas Revenue Tax from $250,000 to $500,000 -- a measure of particular significance to IPAC members.

- Changes will be made in the Petroleum Incentives Program in its current form, with consultation on what might replace it.

- Changes will be made in the Crown Share.

- New fiscal stimulus has been provided for oil sands investment -- reduced PGRT for existing oil sands plants and a willingness to discuss the fiscal regime for new plants.

I might add that the government has introduced legislation to close down the Foreign Review Investment Agency and to put in place a new body called Investment Canada, whose mandate will be to encourage and to facilitate investment in Canada.

Rebuilding the foundations for a healthy oil and gas industry is a very major undertaking -- and one that involves the interests of every region of Canada.

But we do not start from the position that the interests of consumer and producer are fundamentally opposed. We start from the position that a strong and growing energy industry is in the best interests of consumers and producers alike. Consumers need a secure supply of oil and gas; consumers need jobs. And without doubt the energy industry will continue to be one of the key "engines of growth" in the economy.

In that regard I am pleased to see recent activity and financial performance indicators which show that while there's still room for improvement, the energy sector is well launched into recovery. You are clearly ready, with a more appropriate energy policy in place, to accelerate your efforts in 1985. In 1984, for example, Canadian well completions were up 29 per cent from the previous year. In the first half of 1984, upstream revenues were up 11 per cent to $13.0 billion. Upstream cash flow (including PIP), after dropping by 10 per cent in 1981, has been increasing steadily at an average annual rate of 14 per cent since then; it is expected to reach $9.9 billion in 1984 compared to $6.7 billion in 1980. In 1984, upstream capital expenditures are expected to increase in line with the expected increase in cash flow.

I might add that the Conservative policy of flexible natural gas export pricing, which the Liberals adopted in the last months of their regime, has already led to an increase in exports which were previously running at only 40 per cent of allowable levels.

There is no doubt in my mind that the oil and gas industry will continue on the recovery trail and will reach new heights of activity, investment and success. And there is no doubt that Canadians in every region will benefit directly and indirectly from your success.

In the brief time remaining, I want to turn to an area of policy for which I have direct responsibility and which is of fundamental importance to your industry.

Traditionally, the Minister of State for Finance has been most directly involved with our financial institutions. While all Canadians have a great deal at stake in the proper functioning of the financial sector, I recognize, too, the special needs of the business community. With respect to IPAC, most of your members have a large need for external sources of funds -- either in the form of corporate borrowings or in the form of new equity. I want briefly to bring you up to date on some of the work being undertaken by the federal government in the area of financial institution regulation.

My officials have worked closely with all participants in the financial sector -- those who have funds to invest, those who need funds and those institutions which act as their intermediaries -- to explore ways of improving the efficiency, where possible, of this sector. Our objective in this work is to ensure that the regulatory structure promotes efficiency and stability in the financial sector. This process, too has been a useful one and the results will be presented in a forthcoming public discussion paper.

Without prejudging the results of the paper, it is my general belief that the present Canadian financial system is a good one, but that we would all welcome some government reforms where required which would make it even stronger.

The discussion paper will be followed by extensive discussions with the private sector and I invite you, either individually or collectively, to present me with your views on its conclusions.

Of course, the regulation of financial institutions -- and the possible need for some government reform -- is only one area in which the government's regulations are being reviewed. Your industry has made abundantly clear that the burden of regulation and related administration wears away at creativity, innovation, and the ability to grow. We must reduce the time, the personnel -- the investment of all kinds -- that is taken up with paperwork and unwarranted distractions from the real work of developing, growing and increasing productivity. This is particularly true of small and medium-sized enterprises, of which your association is so strongly representative.

The government is keenly aware that small and medium-sized businesses are the main sources of new jobs, innovation and entrepreneurial spirit in this country. Promoting growth in the private sector, and particularly the small business sector, is fundamental to securing sustained growth for Canada. We must ensure that private sector growth is fuelled by a business climate which rewards the entrepreneur for initiative and risk-taking.

For small and medium-sized businesses to play their full role in economic renewal, it is essential that federal and provincial governments and private sector financial institutions respond to their special needs. We cannot allow them to drown in a sea of paperwork and forms. We must find ways to address their special needs through tax simplification, more flexible capitalization, a reform of regulatory roadblocks and by helping them to become more competitive.

As I noted earlier, the agenda is crowded and the challenges are great. But I know that your industry has never backed away from a challenge -- and that's the spirit that will carry us through to success right across the economy.

By working together, people in the public and private sector can find solutions to problems and build the foundation for strong and sustained economic growth in the years ahead. My discussions with organizations like yours tell me that we are making excellent progress toward the goal of a revitalized economy that works better for all Canadians. Let's keep it going.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Immediate Release

Ottawa, January 25, 1985
85-13

NEGOTIATIONS OF PROTOCOLS AMENDING THE TAX TREATIES BETWEEN CANADA AND FRANCE, THE UNITED KINGDOM AND SINGAPORE RESPECTIVELY

The Honourable Michael H. Wilson, Minister of Finance, announced today that negotiations to amend the tax treaties between Canada and France, the United Kingdom and Singapore respectively are presently in progress.

The purpose of this release is to ensure that persons whose interests are affected have an opportunity to inform the government of any particular problems of double taxation which might be resolved in Canada's tax treaties. The government is particularly interested in learning of any difficulties encountered by Canadians under Canada's tax treaties with France, the United Kingdom and Singapore, so that these problems might be taken into account during the negotiations.

Persons wishing to offer comments concerning the negotiations should send their views in writing to the Department of Finance, Tax Policy and Legislation Branch, Place Bell Canada, Ottawa, K1A 0G5.

For further information, contact:

J-M. Déry
Tax Policy - Legislation Division
(613) 992-4942

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 1300 hours EST

Ottawa, January 28, 1985

85-14

Notes for an address
by the Honourable Michael Wilson
Minister of Finance
to the Canadian Club
Toronto
January 28, 1985

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

I want to thank you for your warm welcome, and for your very kind introduction. I am delighted to be back home in Toronto today, to see so many familiar faces, and to maintain your tradition of having Canada's Finance Minister address the Canadian Club early in the new year.

As we begin the year, with a budget squarely on the horizon, I want to say a few words about the challenges all of us face. I say "all of us" deliberately. Yes, the government has tough decisions ahead. But economic renewal in this country hinges just as much on Canadians in the private sector, and you have every bit as much responsibility as we in government to get the economy moving again.

Frankly, I feel more comfortable talking about these challenges today than I did three months ago. I feel better walking in here knowing that some 100,000 jobs have been created since the government took office. And by the close of 1984 the unemployment rate had fallen below 11 per cent for the first time since mid-1982. This improvement represents only a small dent in the ranks of those without work, and a small step towards our employment objective. But it is an encouraging and a hopeful trend nonetheless.

There is other good news worth noting.

-- economic growth in the third quarter clocked in at an impressive 7.6 per cent;
-- interest and mortgage rates have fallen by 200 basis points since we took office;
-- Canada's trade surplus is at a record level; and
-- inflation last year was the lowest since 1971, and low inflation will help us be more competitive internationally.

You may also have seen international reports earlier this month showing Canada has improved its ranking in industrial competitiveness and standard of living among western industrialized nations.

These gratifying reports, and the bright economic developments I have mentioned, are encouraging. They should generate a good deal of confidence and hope among Canadians. But at the same time we should not be carried away by these accomplishments. We cannot forget that, on the other side of the ledger, there are some less than rosy observations. The economy is still hampered by high real interest rates and a slower American economy. We must recognize that a disproportionate amount of our recent economic growth has derived from our huge trade surplus. We must remind ourselves, too, that Canadian business investment continues to be weak. Our resource industries are still under great pressure. And our enormous annual deficit and growing national debt combine to threaten our prospects for sustained expansion and job creation.

This brief tour of some of the ups and downs in our recent economic performance cautions us to maintain a balanced and realistic perspective on our economic performance and outlook. We are indeed showing signs of progress. But the outlook over the next few years is one which we can and must improve upon. We are still well below what we can achieve. The outlook still contains many uncertainties. And the need to meet the challenges to promote growth and economic opportunities has not diminished.

When we were voted into office last September, Canadians gave us a clear message that they wanted a fresh start. They told us that the old ways weren't working; that there was too much confrontation between governments, and between the public and private sectors; that it was time for the government to become part of the solution instead of part of the problem.

We heard the message loud and clear. We responded quickly and decisively with the strategy for economic renewal I announced last November.

Yet as we proceed, it is fundamentally important for Canadians to recognize that the government can't manage every twinge or wiggle in the economy. Nor should it try. Indeed, recent history has demonstrated that governments attempting to determine economic response by increased interventionism have in fact done more damage than good.

Back in the seventies, the government would ride out on its white charger like St. George to try to slay every economic dragon, small or large, that reared its head. Today we can see that the knight in shining armour was not St. George -- but Don Quixote.

The fact is that the economy is far too complex and far too unpredictable for governments to fine-tune every detail. To think that the Minister of Finance has all the policy levers and that he can simply pull the right ones and get the desired results is either a misconception, a fantasy, or both. Many times I wish I could, but that kind of thinking takes an overly mechanistic view of the economy. I view the economy as more like a living being, a complex organism. It is the sum total of millions upon millions of human decisions, actions and responses taken daily. There is a human dynamism at work that we in government cannot hope to predict even with the sophisticated tools at our disposal. We cannot manage it in detail; nor should we try to do so.

Indeed, the macro-economic models that governments have used in the past to assist in policy formulation are increasingly showing their limitations in our fast-paced, rapidly changing and interdependent world. These models are unavoidably based on out-of-date data and old economic relationships. They are not capable of reflecting many of the crucial but intangible factors that affect human behaviour -- including factors such as confidence, expectations and the impact of government regulation and intervention on decision-making -- all of which bear decisively on economic performance.

By the same token the government is not a body perched above the economy, the way Parliament Hill is perched above downtown Ottawa. It is more properly a part of the economy than a directing force, a part of that living organism. It is a set of institutions and agencies that are interwoven with the activities of production and payment we call economic life.

Fine, you may say. There are limits to what the government can do. Meddling too much in the economy is definitely off limits. But what then should be the government's proper role in the economy?

To answer that, let me return to my analogy. In any healthy organism there is a right balance of all the components. But if part of the organism becomes too large, it makes excessive demands on the whole and gradually weakens it. The crucial balance is thrown off and the organism is unable to function properly.

The government's role, therefore, is to ensure that there is a proper balance in the economy between public and private interests. The government must do the best possible job of managing its own fiscal affairs -- become more "fiscally fit", if you will -- so that it can plan responsibly and not be constrained by national debt. But just as important, it must ensure that the overall economic framework of policies, programs and regulations allows the economy to do what it is supposed to do -- generate economic growth and create employment opportunities.

Let me illustrate the importance of balance by reference to inflation. For a number of years inflation has been a major economic problem. Canadians have made great strides in bringing inflation under control. But the battle has been fought at great cost in terms of growth and unemployment, with very high interest rates playing a major role. Federal fiscal and structural policies have <u>not</u> played the role they should have in this battle; in some cases they made the struggle to reduce inflation more difficult. A fundamental difference in the approach of the Mulroney government is a better balanced approach to economic policy, an approach in which monetary policy, fiscal policy and the various structural policies all work in the same direction. The primary objective of this approach will be to sustain non-inflationary growth and create jobs by achieving interest rates that are as low as possible. This approach requires action on our part to reduce the fiscal imbalance and to correct many of the structural problems. This is the direction that we started with in my economic statement, and it will guide all our future decisions.

Controlling and managing the burgeoning deficit was, as you know, one of my first moves last November. That process must continue, in a measured and balanced way. We, as a nation, can't live on borrowed money indefinitely and hope to enjoy the advantages of a growing economy. Since 1974 the accumulated debt of the government has grown faster than the total size of the economy and is projected to continue to do so if there is no change in policy. That must change. Otherwise we would borrow ourselves into oblivion.

The actions we have taken so far -- the expenditure reductions and other measures I announced in my economic statement -- will put a brake on the deficit starting this coming fiscal year. We must and we will continue our effort to meet the government's target of reducing expenditures by $10-$15 billion by 1990.

I should add that I have been dismayed by the notion bandied about by some that to manage our debt problem somehow shows an insensitive disregard for people. Nothing could be further from the truth. Nothing could be further from my own personal concerns. What those people should realize is that only by cleaning up our financial affairs and restoring them to order can we prevent immeasurable human hardship -- hardship that would accompany higher interest rates, fewer jobs, and lower investment. The actions we have already taken reflect what we honestly believe will deliver the greatest good to the greatest number of Canadians. Our decisions in the future will be made on the same basis of concern. People are our top priority.

Reducing our annual deficit is a key objective if we are to achieve the highest sustainable growth possible and create jobs for Canadians. Yet the deficit is not the only obstacle. We must also restructure our economic policies, regulations and programs so that the creative energy of Canadians can be exercised more freely. The individuals and firms who make up the private sector must be allowed to flex their muscles and apply their ingenuity, initiative and imagination as productively as they can. That is our challenge. That is the reason we are undertaking one of the most thorough reviews of government policy in Canada's history. Our goal is a major restructuring of government policy over the next few years to make our economy more productive and more competitive internationally.

For productive enterprises to grow and create jobs, rational, long-term planning is essential. Such planning, however, is made not only difficult, but almost impossible when the "rules of the game" or "framework policies" -- such as the legal and taxation framework -- are repeatedly altered or recast by government. We have seen in Canada a succession of arbitrary changes create uncertainty and damage confidence, both at home and abroad. The national energy program of 1980 is one obvious example. Clearly, recent experience has been damaging. But the status quo is not acceptable. We will make changes. But we will do so in a consistent way and with a view to promoting stability. That is why we are proceeding carefully and with due deliberation. That is why we place such an important emphasis on consultation.

There are many areas where action is required. A considerable measure of confidence could be restored to the business climate by entrenching in legislation a new competition policy framework as soon as possible. We also very much need to update our copyright legislation so that the creation, transmission and processing of information can contribute more to economic growth. A considerable number of other laws and regulations that affect the ways in which business is conducted can be streamlined and modernized. By doing so our economy can be more flexible and productive; and modern practices can be encouraged and adopted.

There is no greater powerhouse for renewal and economic opportunity than small business. Most of the new jobs in Canada in the last few years have been created by small business. What is more, the greatest potential for new jobs in the next few years rests with small businesses. If we are serious about letting the private sector carry the ball of economic growth, then we must ensure that the business environment rewards the entrepreneur for individual initiative and risk-taking. And we must do everything in our power to remove obstacles to the growth of small business.

This means further simplifying the tax and regulatory environment. It means cutting down the disabling burden of forms and paperwork government tends to inflict on small business. It means seeking ways to ensure small business has access to necessary equity capital, especially for start-up purposes.

The effect of unemployment insurance premium rates on small business has emerged as a contentious issue. Some argue that the mounting payroll tax burden on labour-intensive small business could become a deterrent to job creation. Some say it already is. Clearly, we can ill afford to risk choking off the most promising source of new jobs in our economy today and tomorrow. We are examining options to reduce inefficiencies in the UI system and to make costs for entrepreneurs more equitable.

I have indicated that government can take the lead. It can establish the right framework. And much of what it can do involves little or no cost to the treasury. But let there be no mistaking what all this ultimately means. We have set ourselves a challenge of engineering a better balance in our economy between the public and the private sectors. The new framework we are building is one in which Canadians not only should expect less of government, but more of the private sector.

I am not entirely sure that this new reality has yet sunk in with the private sector. The government has spent a good deal of time identifying the responsibilities and challenges it must face up to. We are confident that the private sector has the ability and the "smarts" to generate economic growth. We are convinced it can do the job, and we have planned our policy agenda in that conviction.

The private sector has been on the defensive for a number of years now. We are systematically doing those things that will allow it to take the offensive.

I am pleased to see a few business leaders urging their colleagues to show that private enterprise can do the job and take up the challenge to expand and invest as government steps back from the marketplace. This type of leadership is extremely important.

For the private sector now has a tremendous opportunity to show its mettle and to accept its own share of challenges. One key area in which it can meet the challenge is investment. Increasing productive investment would benefit all sectors of the economy significantly. After all, investment spending translates directly into greater output and employment. But even more important, timely

investment decisions in response to rapidly changing technology and to shifting world market conditions will boost future productivity growth and enhance our international competitiveness.

Another challenge for the private sector is in research and development. In R&D expenditures Canada ranks well behind where we should be among the industrialized countries. If we really mean to be competitive in the world -- if we are really serious about capitalizing on new and emerging markets -- we must embrace R&D without reservation. The micro-chip has no national allegiance. It can be as much ours as anyone else's.

I know that increasing R&D requires a major commitment. It doesn't come cheap. But Canadian businesses cannot afford <u>not</u> to take the challenge. It's fast becoming a matter of self-preservation.

Training and skill development is a high-priority ingredient for economic growth. It provides firms with the skilled people needed to be competitive. But, equally important, it helps individuals adapt to changing job opportunities brought about by major shifts in business activity and rapid technological change. This is a nation-wide priority. It's time the private sector asked itself how it can play a larger role so that skill development can stay in step with its real needs.

Another major obstacle to the success of business is our access to export markets. It is also a major challenge. We need to discuss what obstacles there are in the trade policies of other countries which inhibit our exporters. We must also remove some of the financial and other obstacles there are in Canada which discourage our small businesses from exporting more. If we are successful, a tremendous number of jobs can be created. But to be successful we must be willing to venture into export markets, confident that we can compete. We know our people and our products are high quality. Let's bite off a bigger share of the market, expand our plant, create some new jobs and get out there and sell.

All of this implies a change in attitudes and a shift in the way we do things. The process is one that will not happen all at once. Nor will it be implemented in any single budget. It is a process that must be ongoing, and must be

worked out carefully in consultation with the private sector. Step by step, with all interests in our society working together, the new contours of a growth-oriented economy will be established.

When we were elected last fall, we took a very close look at the economic projections and decided they weren't good enough. But we couldn't just wish for improvement. We had to shape an economic development plan -- a plan to better our prospects. To reduce the risk of unemployment we had to address our debt problem with determination. We had to build a better framework for private sector growth. We had to make major strides in the key areas of trade, R&D and investment performance. We know that by taking action in all these areas we can improve our economic performance substantially.

The challenge is clear. We in the government have accepted the challenge. Now it is up to business to do the same -- with assurance and confidence.

I believe business is beginning to exhibit some of the confidence and commitment that will be required for sustained economic renewal. That's what some of those good news economic indicators are saying. That's what small businesses are telling me. That's why foreign investors are taking greater interest in Canada. As this increased investment generates employment opportunities, Canadians will become less fearful that their jobs are at risk. They will be more inclined to go out and buy a car, a new suit, or a new rug for their home. That's why confidence is so important. Rising confidence is self-propelling. I believe we can be confident and optimistic. Surely, if there is one country in the world which has every reason to succeed, it is Canada. We remain convinced that positive action by government, business, labour and individual Canadians working together -- meeting the challenges -- will ensure prosperity and a better Canada for all.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Release at 2030 hours EST

Ottawa, January 29, 1985
85-16

Notes for an address
by the Honourable Barbara McDougall
Minister of State, Finance
to the Canadian Manufacturers' Association
Toronto
January 29, 1985

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

It is a pleasure for me to address the Canadian Manufacturers' Association. I accepted Eric Owen's invitation with enthusiasm because it is a welcome opportunity to speak to some of the key players in the Canadian economy at a time of gathering momentum for positive economic change.

This is also a time of rising anticipation about the budget to be brought down in the spring.

Although I am relatively new to elected office, I can see already that this atmosphere of anticipation creates a sort of occupational hazard for cabinet ministers making speeches and other public statements.

Audiences quite naturally tend to look for clues to the contents of the next budget. Ministers, bound as they are to uphold traditional budget secrecy, have to be extra careful not to make statements which could be interpreted, rightly or wrongly, as revealing of any specific measures that might be in the budget.

The result, I fear, can sometimes be a style of speech reminiscent of a certain local hockey team on a bad night -- a little fancy skating, a lot of icing the puck and not much else.

Let me make it clear at the start: that has never been my style of game. More to the point: it's not the way the government has chosen to use this important pre-budget period of consultation and public debate.

Our consultation process is in fact helping to shape the contents of budget initiatives and government policy over the coming months and years. You're not really part of the audience -- you're part of the game.

If I were allowed just one more allusion to hockey, I would say the most important thing during this period is to get some good hard shots on goal -- or, more precisely, the economic renewal goals that we have set out first for consultation and then for action.

Just one supplementary metaphor, Mr. Chairman: The government does not see itself as the star player, the leading scorer in the drive to revitalize the Canadian economy. Our intention is to pass the puck to those who are in the best position to get the job done, to create the growth, jobs and opportunities that Canadians need. And that, in many cases, means you.

We have come to depend far too much in this country on government for things that government is not well suited to do.

Government can never provide a substitute for the entrepreneurial spirit, the risk-taking and the investment, the individual talent and initiative, that characterizes a healthy private sector and energizes a successful national economy.

Only you can provide that. Government can help -- sometimes by getting out of your way, sometimes by giving you a judicious nudge or a well-placed incentive. And you can help build the system, the framework, in which private sector leadership can best be demonstrated for your benefit and the benefit of all Canadians. That's what the current consultations are all about.

Our roles are not mutually exclusive; they are mutually supportive.

Despite the fact that government and organizations such as the CMA have quite different roles in society, I think it fair to say that we have very compatible aims, and perhaps never more so than at the present time.

The objective of your association -- "to promote Canadian industries and further the interests of Canadian manufacturers and exporters" -- parallels the government's objective for the national economy. And the CMA is understandably proud of its recent progress in that regard.

Your organization and its members are on the right track -- the track back to economic renewal. You have been making up lost ground and can look forward to new gains as the economic problems facing our country are overcome.

As you know, a recent report of the European Management Forum rated Canada seventh among the world's industrial nations in terms of industrial competitiveness, up from 11th place a year earlier. That's encouraging news.

However, as your president recently acknowledged, there is still a lot of work to do on some of the fundamentals. Canada still rates far too low in vital areas that affect our competitive position -- areas such as productivity and investment growth and labour relations.

The survey also gives us a low rating in a category described as "innovative forward orientation". That sounds like a polite way of saying that Canada isn't quite pointed toward the future.

Well, that may have seemed true up to September 3, 1984, but let's remember that something pretty important happened the next day.

On that day Canadians clearly rejected old attitudes and approaches. Canadians said no to unilateral government actions and continuous confrontation. Canadians said yes to a new and constructive atmosphere of economic renewal.

And you brought in a new government with much more than an "innovative forward orientation." It is a government with the determination to act on its mandate to make changes -- positive changes.

The Agenda for Economic Renewal presented by the Minister of Finance in November points the directions for change. But knowing where we want to go is just the beginning. Even if we had all the answers on how to get there, which we do not, we would still need the full co-operation of business, labour, the provinces and all Canadians to renew our economy. That's why our approach relies so much on an open-minded consultation process.

Consultation is not an excuse for inaction. The Minister of Finance left no doubt of that in his Economic Statement in November. Tough decisions were made on controlling expenditures; there will be more such decisions -- unless, of course, you can suggest an easy way to solve the problem of government deficits and the mounting public debt.

I cannot stress too strongly that, even with its finances in good shape, the government alone could not ensure economic success. We need the expertise, the goodwill, the best efforts of all parts of the Canadian community.

This evening, in keeping with the theme of your symposium, I want to talk about some of the new directions we have charted which are particularly important to your members. If you have read the Agenda paper -- is it possible that any of you has not yet read it? -- you will know that I don't have time to cover all the specific areas that we have designated for consultation and action.

Tonight I want to focus instead on the directions for change spelled out in a consultation paper released just today on the subject of export financing. First, however, I want to sneak in a brief plug for another initiative that takes up a lot of my time.

Traditionally, the Minister of State for Finance has been most directly involved with our financial institutions. A great deal of pressure for change has built up in the financial sector over the years. Now it's time to deal with it.

My officials have worked closely with all participants in the financial sector -- depositors, borrowers and the institutions -- to explore ways of improving the efficiency, where possible, of this sector. Our objective in this work is to ensure that the regulatory structure promotes efficiency and stability in the financial sector. This process has been useful and the results will be presented in a forthcoming paper. The Canadian Manufacturers' Association has always been prompt in responding to government initiatives and I will welcome your views on the publication of our work.

Without prejudging the conclusions of the paper, it is my general belief that the present Canadian financial system is a good one, but that we would all welcome some government reforms where required to make it even stronger.

Among other areas of special interest to you are competition policy, copyright issues, corporation, patent and bankruptcy laws, trademarks, packaging and labelling regulations and hazardous product legislation. On these topics let me say only that we want to simplify and modernize wherever possible to help make our markets more flexible and productive -- and we want your help in doing it right.

We intend to reduce the burden of unwarranted paperwork associated with government regulation. We want you to have more time and resources to invest in productive enterprise that enhances your ability to grow -- to seize new opportunities to create jobs and wealth.

No catalogue of issues about which I am not talking tonight would be complete without mentioning the tax system. It is a crucial influence on your capacity to invest, to innovate and to grow.

The Minister of Finance has made clear that the tax system will be re-examined with a view to further encouragement of investment and other productive economic activity. Tomorrow the Minister of National Revenue will be bringing you his perspective on some important taxation issues.

I want to turn now to the key question of export financing and the consultations paper issued earlier today by my colleagues, the Minister of Finance and the Minister for International Trade.

Clearly, we must do more to develop our trade potential. The world is at our door. Not pounding at our door to be sure, but out there for us if we are willing to become more competitive. Your organization has been a leader in emphasizing the importance of improving competitiveness and in analysing the various elements of that challenge, particularly the crucial need for higher productivity.

Studies by your organization have highlighted the quality of management as perhaps the single most important factor in meeting the competitive challenge. This is an especially important observation in my view because it focusses on the critical human element in economic success or failure.

It isn't just Canada that has to compete successfully on world markets, it's you and I.

But we have to be sure that our efforts have adequate support from the institutions that underwrite international commerce.

A successful export financing system can make a key contribution to keeping Canadian companies competitive in world markets.

In a perfect world, governments might not be involved at all in export financing. Within the western industrial world, trade is in fact carried out with very little government involvement in financing or marketing. However, government-supported export financing is very much a fact of life in trade with Eastern European countries and with the third world.

Those markets are important and becoming more so. We must remain competitive in this area of export financing. That is one of the fundamental challenges addressed in the consultation paper.

Unlike the situation in most other countries, the Export Development Corporation has a virtual monopoly on subsidized export financing in Canada.

But let's remember that 90 per cent of Canada's exports are delivered with virtually no government financing involvement. That represents a lot of private sector expertise and experience. It certainly provides good reason to explore the possibilities for a significant private sector role in the other 10 per cent, with appropriate government support.

In particular, we want to explore ways of maximizing the capacity of Canada's banks to contribute to the financing of Canadian trade. Greater involvement by the banks in medium and long-term export financing could be an important means of broadening the base of exporters.

We also want to look at increased private sector involvement in the insurance side of EDC's services, with the benefit of widening the distribution network and promoting better access to service for exporters.

Greater responsiveness, improved coverage and other services -- particularly for small and medium-sized businesses -- are important goals for the EDC.

There is good reason to expect that broader delivery and intelligence systems resulting from a greater private sector role would result in more exports and an increase in the number of small and medium-sized businesses in the export field.

We are also reviewing the role of the Canadian Commercial Corporation in light of the need to facilitate private sector, and particularly trading house, participation in support of Canadian exports.

The paper makes clear that there are substantial risks in a number of the options for change. But constructive change is seldom accomplished without looking at all the possibilities and following through with the demanding job of weighing potential risks and benefits.

We also have to explore whether Canada's aid programs can be used to a greater extent or in a different way to provide concessional financing in developing countries.

There are some fundamental questions to be faced in this regard. There can be difficult trade-offs between developmental and commercial objectives. Canada's aid programs are geared to long-term goals in developing countries and are concentrated in low-income countries. A greater role for commercial objectives would imply, for example, more emphasis on projects in higher-income developing countries. Commercial projects may not always fit in with development goals and may be viewed by recipient countries as having limited value. Clearly, this would not serve either Canada's development assistance goals or its longer-term commercial interests.

In addition, it is essential that aid programs not be used to subsidize otherwise uncompetitive Canadian production. That could have a damaging effect on Canada's commercial reputation abroad while encouraging economic weakness at home.

Nevertheless, we have to face the fact that the competition faced by Canadian exporters in developing countries is often subsidized from the aid programs of other nations.

Through the entire paper we have put the emphasis on ensuring that Canadian exporters are on an equal footing with foreign competitors, but we have made clear that export financing cannot be realistically viewed as a means of gaining significant advantage over the competition. It is highly unlikely that Canada could survive, let alone win, an export credit war.

The only real advantages we can create are the ones we will earn by facing all of our economic challenges head on in the months and years ahead.

Right across the board we have to work at restoring the momentum of economic growth for the long haul. There is no shortcut to success, but every step we take will make other steps seem more attainable.

The new directions for change which we have put forward for consultation are themselves a challenge to the capacity of Canadians to adapt to change, to harness it for positive new opportunities. The forward-looking activities of the CMA, including this symposium, are proof that leadership in facing change can be shared between the public and private sectors, as we know they must. We look forward to your contributions on export financing issues and on all of the policy areas and the options we have opened to the consultation process.

The process is neither easy nor short. From the current round of consultations we will go to a First Ministers conference, a national economic conference and on to the budget. But that will not be the end.

The agenda for action is crowded. It will take years, not months, to complete, and the government is committed to continuing national consultations. We must not only build but maintain a productive, working relationship with all parts of the Canadian community.

As individuals, as business people and as members of an important national organization, you will have a continuing major role to play. With your help, we can fully restore the spirit of individual and national achievement which will enable Canadians to face and to build their future with new confidence.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate Release

Ottawa, February 19, 1985
85-28

U.S. $500 MILLION BORROWING TO BOLSTER CANADA'S OFFICIAL INTERNATIONAL RESERVES

The Honourable Michael Wilson, Minister of Finance, said today the government will make a short-term borrowing on one of its two standby credit facilities to increase the level of its official international reserves by U.S. $500 million.

The move is in response to the continuing volatility of world currency markets caused by the strength of the U.S. dollar.

Mr. Wilson said that the borrowing, from a standby credit facility with a group of international banks, is being made under Section 39 of the Financial Administration Act. This section allows the government to borrow, for a term of up to six months, when it appears that there will be insufficient funds in the Consolidated Revenue Fund to pay lawfully authorized disbursements, including advances to the Exchange Fund Account in which Canada's official international reserves are held.

The government is using this procedure because it currently lacks borrowing authority while awaiting approval of a bill now before the Senate.

Explaining the need to use Section 39, Mr. Wilson said the Senate's delay in passing the borrowing authority legislation (Bill C-11) is disrupting the businesslike management of the government's borrowing program. Mr. Wilson emphasized that there is no valid reason for the Senate to delay passage of this Bill any longer.

.../2

The Finance Minister said the Senate's action risks additional costs to the government's debt program -- risks that will be borne by Canadian taxpayers.

"Timely passage of new borrowing authority legislation now before the Senate will eliminate any need for further borrowing under Section 39," Mr. Wilson said.

Bill C-11 is designed to provide borrowing authority necessary to cover the government's financial requirements and those expenditures already authorized by Parliament. The bill, introduced on November 23, 1984 was approved by the House of Commons on December 21, 1984.

For further information, contact:

G.W. King,
General Director
Financial Sector Policy Branch
(613) 992-5885

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 1300 hours EST

Ottawa, February 21, 1985

85-30

Notes for an address
by the Honourable Michael Wilson
Minister of Finance
to the Conference Board Financial Outlook Conference
New York
February 21, 1985

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

I want, first, to thank the Conference Board for inviting me to address this distinguished gathering. And I thank you all for the warmth of your welcome. America justifiably deserves its reputation among Canadians for warm, generous hospitality. Believe me, Canadians are grateful, and no more so than at this time of year. After all, how could so many of us enjoy our legendary winters if it weren't for Florida!

Beyond sharing a common border, our two countries have historically shared a dynamic and mutually beneficial relationship. Our common heritage has bred similar values and a common ethical landscape. A passionate belief in the ideals of democracy inspires us. A commitment to the free enterprise system sustains us.

Our views and approaches are basically in harmony with each other. We hold fast to similar hopes and aspirations. And the reality is that we are probably more interlinked than we often realize -- and in many aspects of our national lives. Just think, where would the Islanders be without Denis Potvin or Mike Bossy? And where would the Blue Jays be without Dave Stieb or Lloyd Moseby?

Given all this, it is not surprising that our economies share much in common. We are each other's best trading customers -- by a long shot. But the story goes well beyond trade. It involves Canadian companies with branches in the United States and American companies with branches in Canada. It involves the most highly interrelated and sophisticated financial markets in the world. It involves investment, technology and countless joint ventures. And it is perhaps most dramatically manifested when the Canada space arm contributes to the success of a U.S. space shuttle mission. It goes without saying, we each have much to gain by seeking ways to strengthen our relationship.

As for the question of size, I think it is fair to say that American economic strength is part of the Canadian consciousness. This fact is captured in the saying I'm sure you've heard, that "when Washington sneezes, Canada catches pneumonia."

"Pneumonia" clearly exaggerates the situation; but we are certainly not immune to catching a cold. We are the smaller country. Our need of the U.S. market is greater than your need of the Canadian market. And American economic policy decisions have a greater impact on Canada than ours do on the U.S.

That is why we feel it is critical for us to be on the same wave length -- and remain on the same wave length -- with our American neighbours in both business and government. And that is why we are anxious to keep you abreast of economi developments in Canada.

I welcome your keen interest in Canada since the new Progressive Conservative government took office. Today I want to bring you up-to-date on the progress we are making -- and will continue to make -- in building reconciliation and economic renewal in Canada.

The government is now almost six months into its mandate. In that time we have moved decisively to put in place a comprehensive strategy for economic renewal. We have acted to restrain our growing deficit and to manage responsibly our national debt. That action will be reinforced in a budget I will be tabling in the spring. We have initiated one of the most comprehensive reviews of governme policy in Canada's history. It will lead to a major restructuring of government policy over a period of years that will promote economic growth and make us more competitive internationally.

Clearly, we have our work cut out for us. But just as clearly we are going about it in a new and positive way. We have begun a new era of consensus and co-operation the likes of which have not been seen before in Canada. We have put an end to the confrontation that has soured federal-provincial relations in the past and prevented Canada from realizing her full potential.

The new era of co-operation was manifest last week when the Prime Minister met with the provincial premiers at the First Ministers Conference on the economy. The conference was noteworthy for an unprecedented spirit of concord and good will. There was a new willingness on the part of all participants not only to listen to their counterparts, but to hear what they had to say.

The new spirit is producing tangible results. For example, earlier this month the federal government signed a landmark accord on offshore oil with the province of Newfoundland. The agreement has been hailed for opening up new economic opportunities for Newfoundland, and for restoring confidence in federal-provincial relations. It signals, at long last, the start of development of the Hibernia oil fields.

In December we signed an important economic and regional development agreement with Quebec, the first since 1974. By showing flexibility we have already reached subsequent sub-agreements in the specific areas of communications, tourism and industrial development. Quebec has come out a winner -- but so has the nation as a whole.

These agreements, and the rekindled spirit of co-operation between the federal government and Quebec, have had an extraordinary impact in that province. Quebecers, who have previously questioned their role within confederation, have set aside their doubts. Once again they are looking to build their province's future within Canada.

This kind of co-operation is building a new sense of optimism and confidence in Canada. Once again Canadians are saying that confederation is a blessing, not a bane; that the federal and provincial governments can really pull together, instead of pulling the country apart.

By now there also should be no doubt that Canada has taken the first steps in a new era of co-operation with the United States. And you, in the U.S., have responded in kind. Prime Minister Mulroney and President Reagan have established a warm and positive relationship. That relationship will be renewed next month when the two meet in Quebec City for a working session on matters of mutual

interest to our two countries. Other ministers have developed similar close working relationships with their American counterparts. We see eye to eye on most of the issues that concern us. For our part, Canada will act to fulfill our responsibilities -- too often neglected in the past -- in such key areas as defense.

Canada and the U.S. can both benefit from a co-operative approach in bilateral relations. No one should doubt that. The relationship is not a zero-sum game.

Likewise, let no one doubt, co-operation can enhance Canada's sovereignty -- by strengthening our economy, our security and our voice in world affairs.

Co-operation is common sense. For Canada to ignore the unique opportunities offered by the North American context, by our living next door to the vast American market, would be foolishness on a national scale.

As we move to strengthen our bonds, at home and abroad, I am encouraged that a growing number of key indicators in the Canadian economy are looking up. Real GNP grew at a 7.6 per cent annual rate in the third quarter of 1984. While it is unrealistic to expect this pace of growth will be sustained, we are encouraged by signs of a firmer growth rate than had previously been anticipated. The overall decline in interest rates and mortgage rates in recent months should contribute to this firmer growth.

I have been impressed by the progress in a number of areas. As of November, new orders and shipments of manufactured goods and industrial production all showed healthy increases from a year earlier. Retail sales in 1984 were 8.2 per cent above their 1983 level. And large industrial corporations have seen their profits recover once again to pre-recession levels.

Canada has been running a record trade surplus that approached $21 billion in 1984. To be honest with you, I would prefer a lower surplus since our trade picture has been enhanced by a weak business investment performance and a consequent reduction in capital equipment imports. I should add, too, that while our trade surplus has been strong, it is largely offset by our deficit on services.

Our competitive position is much brighter than in recent years. For example, the annual rate of inflation in January as measured by the Consumer Price Index was 3.7 per cent, slightly lower than in the United States. In 1984 inflation was at its lowest level in thirteen years. We are striving to maintain an inflation rate somewhat below the U.S. rate in order to strengthen our competitive position.

Productivity in Canada rose a healthy 2.7 per cent in the third quarter of 1984, aided by reasonable compensation increases that on average were up only 3.4 per cent in the third quarter over the previous year. Our good record on compensation helped hold our unit labour costs in the third quarter to an increase of just 0.7 per cent.

We have also been encouraged by some recent international reports. For example, the European Management Forum only last month reported that Canada's competitive position among 28 industrial countries in 1984 rose to seventh place from eleventh in 1983. And according to the OECD, Canada's standard of living ranks second highest in the world, only slightly behind the United States, and well ahead of third-ranked Japan.

I might add that the recent signs that the U.S. economy may do better than was earlier forecast is good news to us. If that happens we in Canada may well benefit from some of the spillover from stronger American economic growth.

Encouraging as these signs are, we do not pretend that our economy has a clean bill of health. We have diagnosed some deep-rooted problems that we are determined to treat -- and cure. When we were elected, we inherited a tragically high unemployment rate. We shall not be satisfied until we have reversed this situation. The unemployment rate has fallen, from 11.6 per cent when we took office to 11.2 in January. But we must do much more to enable the economy to generate opportunities for permanent employment for those without work.

We also inherited an enormous public debt that we must cut down to size. High national debt, as you well know, has become a pandemic problem. Most western

governments are struggling to at least minimize the damage it does in terms of high interest rates and eroded investor confidence which ultimately cause retarded economic growth and high unemployment.

A very important part of Canada's economic renewal strategy is to rein in the deficit and thereby put a lid on our growing national debt. As we move to do this, we are keeping one eye directed southward to the United States. We have a very strong interest in what the U.S. government does about its own high deficit and growing debt. Indeed, it is not an overstatement to say that because of the dominant force of the U.S. economy in our markets, your debt and deficit, and what you do with them, are as important to us as our own.

Canada, together with all the OECD countries, is clearly affected by your fiscal policy. We are encouraged by the Reagan administration's commitment to tackle the deficit in a systematic and credible way. That action is crucial if pressures in the capital markets are to be reduced.

But let there be no mistake. In looking to the U.S. for action on its deficit, Canada is not passing off our own responsibility for our own problems. We are not saying to the U.S. "You are your brother's keeper". Nor are we simply asking to ride on America's deficit-cutting coat-tails.

We recognize our own severe deficit problem and we are acting to reduce it. I began the process last November when I announced government expenditure reductions and revenue recovery measures of $4.2 billion in 1985-86. Putting our own fiscal house in order is paramount if we are to give ourselves maximum room in which to structure our domestic priorities.

Reducing the deficit and managing the debt is one vital dimension of our strategy for economic renewal. But other dimensions, equally vital, complement our deficit reduction effort. I mentioned at the outset that we have commenced one of the most thorough reviews of government policy ever witnessed in Canada. This action is based on our conviction that government must relinquish its role as the dominant player in the economy. The past 15 years have shown that just when a dynamic, creative private sector was most crucial to Canada's competitiveness,

big government stifled and suffocated its initiative. Our goal is to restructure our economic policies, regulations and programs so that the private sector can once again assume its proper role as the chief creator of wealth and jobs and the impetus behind economic progress.

From a Canadian perspective, the paradox is that government must become smaller in order to do more. The direction we are taking is one that you in the United States -- the home of quintessential free enterprise -- can well appreciate.

The new Canadian government, unlike the old, has no doubts about the benefits of a strong private sector. We have no doubts about the virtues of free enterprise -- in generating wealth to support our social programs; in promoting a healthy self-reliance and initiative; in energizing imagination, innovation and entrepreneurial vigour.

Canada's founders built a democracy on the foundations of free enterprise. Through free enterprise we became one of the soundest economies in the world. And through free enterprise we shall renew our economy's vitality.

In becoming less of a dominating force, government must at the same time be more effective in what it does, and in how it does it. Our economic renewal strategy is based on the government establishing a policy framework characterized by credibility, consistency and continuity. Those doing business in Canada, or with Canada, must be able go about their business knowing that the government will do what it says, that it will be consistent in its actions, and that it will not be unpredictable, erratic or arbitrary in its policy decisions. Granted, we could never eliminate all uncertainty in economic decisions -- that would be unrealistic -- but we can remove the self-inflicted uncertainty that has plagued our economic environment in the past. When we have done this, we will have coupled a positive government commitment with a strong and dynamic private sector force.

As part of the economic renewal strategy we are reviewing many areas that are critical to private sector growth. One of our key concerns is to promote a resurgence of investment.

We intend to create a positive and stable environment that will not only spur domestic investment, but attract foreign investment as well. We've issued an open invitation to come and invest in Canada. The door is open. This is not just a rhetorical gesture. Our move to replace the Foreign Investment Review Agency with Investment Canada, and our intention to scrap the discriminatory aspects of the National Energy Program, proclaim the message that we mean business. Looking back it is apparent that FIRA and the NEP did little but add a new category to our list of leading exports -- frustrated investors!

The Investment Canada Bill, the act which will replace FIRA with a new body, Investment Canada, is currently before Parliament and should be enacted soon. I am convinced it will help us gain ground in the fierce competition for investment capital.

Under the new legislation, virtually all proposals for new investment will be exempt from review. Only takeovers as well as those foreign investment proposals that are of major national or cultural significance will be reviewed. Thus, more than 70 per cent of the foreign investment proposals that would have been scrutinized under FIRA will be exempt from review. And for the 30 per cent of proposals subject to review, it will be rapid and efficient.

The positive investment stance of Investment Canada will go beyond its review mandate. The new body will provide information and advisory services on investment opportunities in Canada. And it will promote, both at home and around the world, the opportunities Canada offers investors. We now have one of the most receptive foreign investment policies of any industrialized country.

I have been enormously encouraged by American response to our open approach to foreign investment. On the strength of our actions thus far, a number of American companies are already moving ahead with plans to invest in Canada. As our economy gathers steam, and as the reality of a friendly, hospitable Canadian investment environment becomes evident, I know many more will follow.

We will be looking to our energy sector to once again become a magnet for investment. Energy investment accounts for 30 per cent of total business investment in Canada. More than that, we know that an expanding, thriving energy sector can breathe new energy into the rest of the economy.

It is true that sagging world oil prices have made some investment projects unfeasible. But it is patently clear that the previous government's heavy-handed and arbitrary changes to the framework of our energy sector choked off both domestic and foreign investment. Confronted with discriminatory taxes and incentives, investment has left and stayed away. This will change. Measures such as the 25 per cent "back in" will be changed. The tax regime will be changed. We wish to reassure potential investors that our energy sector is once again an attractive place to earn a return on the investment dollar.

If the investment climate is to be as attractive as possible, it is important to pay close attention to all the key ingredients -- the labour force; the tax system; and new technology, to name a few. I know that high ratings in these areas can make all the difference when foreign investors are sizing up Canada's potential.

Since the recession, real investment has been slower to recover in Canada than in the United States. Recently, however, there have been some bright signals. Business fixed investment is growing again. And a recent Conference Board of Canada survey confirms that an increasing proportion of senior executives believes now is a good time to expand their plants and add new machinery and equipment. More than half the executives surveyed have made definitive plans to step up their capital outlays.

We intend to do everything possible to fan that investment flame. We are determined to nail down new markets for our products and to create the demand that will prompt investment. One avenue we will explore in this regard is securing broader access to export markets, and in particular the United States market. Canada is a trading nation. We need a more secure and predictable trading climate. My colleague, the Minister of International Trade, last month released a discussion paper on this very issue. The paper poses possible options we might consider to secure and enhance the trade between our two countries.

Broader access to foreign markets, and the United States market in particular, could be the catalyst to trigger a significant investment boom in Canada. It would also help us to attract the advanced technology we need to stay competitive.

Of course, the reduction of trade barriers we might consider is a two-way street. It would have some profound implications for the structure of the Canadian economy. And the broader and more secure the access agreed upon, the greater would be the impact on how much investment would be channelled, and into what kinds of production.

Certainly we would expect to see expansion in sectors of the Canadian economy where we now enjoy a competitive edge. And I would anticipate investment flowing into sectors where we have a strong potential to develop a competitive advantage. In all likelihood, real income gains would flow from the rationalization of Canadian industry to larger production runs and a greater degree of specialization to serve the larger market.

By the same token, sectors of the economy ill-equipped and ill-suited to withstand intensified import competition would be at a disadvantage.

I am convinced, however, that if we decide to take the challenge and plan with foresight and care for the expected adjustments, our economy would be better for it. In time we would see a more cost-efficient economy. We would strengthen our ability to compete in the world. And we would raise our standard of living.

Trade is of central importance to both Canada and the U.S. Canada, like the U.S., has a distinguished history in support of multilateral trading arrangements. We support -- and will continue to support -- an open international trading system. We have a strong record as a fair trading partner. We realize that a strong trading relationship with each other is vital: it fuels our respective economies; it means jobs -- on both sides of the border. That is why we are taking concrete steps to settle our long-standing trade issues. Success on this front is one of the keys to economic renewal.

Canada's strategy for economic renewal responds to the mandate the government was given to improve the way we do things in Canada. It was a clear message that the government should change its approach. It was a clear judgement upon too much government intervention in the marketplace.

We are not satisfied simply to discourage the view that the government can, or should, prevent change in the economy, especially change whose impetus comes from the competitive realities of the world marketplace. But much more than this, we believe we must be a facilitator of change -- by freeing up the private sector to exercise its full initiative; by enhancing the climate for investment, innovation and growth; by encouraging consensus and co-operation.

Canada, like all western countries, must prepare itself to adjust to the changing contours of the emerging world economy. We have begun this process -- in a new spirit of national self-confidence. We have a clear idea of where we're heading. And we're inviting all who want to join us to come on board.

Co-operation will enhance our ability to sustain prosperity -- co-operation between the federal and provincial governments; co-operation with business and labour. We know we have tremendous capabilities that we all can bring to bear on renewing prosperity for our people.

But the principle transcends our borders. And the benefits do too. Through co-operation -- with the United States and the world community -- all of us can advance our common interests to our mutual advantage. And as we enter the home stretch of the twentieth century, we can build creatively and boldly, confident in ourselves and in the future.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 1300 hours EST

CH
FN

Ottawa, March 1, 1985

85-35

Notes for an Address
by the Honourable Barbara McDougall
Minister of State (Finance)
to the Association of Canadian Bank Analysts
and the Toronto Society of Financial Analysts
Toronto
March 1, 1985

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

I want to thank Michael Goldberg for the invitation to speak at your luncheon.

Seminars such as this one serve a dual purpose in the financial community. They provide an opportunity to share new information and, as I fondly recall, they allow old colleagues to exchange news.

As a former member of your community, I know that there is a lot to be gained by keeping in touch with former colleagues -- and by listening to them. I can assure you that the government as a whole is listening and learning. It is a government that shares your basic belief in a strong and dynamic private sector as the key to economic success.

The election of September 4 was typical of a peaceful Canadian style evolution. Canadians said that they, too, wanted change. They told the government to put its house in order and give the private sector a chance to lead the way to prosperity.

I want to say a few words about putting our financial house in order. My colleagues and I are attempting to bring good financial management principles to the handling of the national debt in order to get ourselves back on a responsible financial track.

That is why we asked for the co-operation of the House of Commons and the Senate in passing our borrowing authority bill which was part of our orderly debt management program. The delays by the Senate in passing this bill have cost Canadians approximately $10 million. I am glad to say that the Senators finally passed the bill on Wednesday evening. We can now look forward to proceeding with an orderly debt management program.

As you know, the Main Estimates tabled by my colleague, the President of the Treasury Board, indicated that our government currently is saddled with a debt servicing program of $25.5 billion. This is a huge concern for our government. And one with which we plan to come to terms.

It's now time for a national change of economic lifestyle. Therefore, the government is setting a financially responsible example and encouraging individual initiative and private sector investment.

The Conservative practice is to communicate, co-operate and invite participation. We're listening, we're talking and our message is being heard. We have embarked on a long-term challenge of economic renewal. But it's encouraging to see several economic and financial indicators moving in the right direction.

For instance, since September, 64,000 jobs have been created and the unemployment rate of 11.2 per cent in January was down from 11.6 per cent in September. In the same period a year ago, only 5,000 new jobs were created.

We're continuing to do well on holding costs and prices in check. Statistics Canada figures show inflation dropped to a 13-year low of 4.4 per cent in 1984. In fact, Canada's rate of inflation was at or below the rate of inflation in the U.S. for the past five months. The rate of inflation excluding food and energy has been below the U.S. for a full year.

During the fourth quarter of 1984 other encouraging signs emerged. The pre-tax profits of all industrial corporations rose 1.3 per cent, the pre-tax profit margin held steady at its third quarter level of 5.9 per cent, and sales rose 1.6 per cent.

Over the first seven quarters of the current recovery, the overall increase in real gross national expenditure, contrary to common perception, was about the same in Canada as in the U.S.

The OECD Economic Outlook brought good news, too. Canada's international competitiveness in terms of relative export prices (measured in a common currency) has improved the most among the major OECD countries in the past 14 years.

And, again according to OECD figures, Canada's standard of living is the second highest in the world -- about 5 per cent behind the U.S. and 25 per cent ahead of Japan.

As a nation of savers and homeowners, Canadians are aware that interest rates have fallen substantially since the middle of 1984. Notwithstanding recent interest rate pressures from the strength of the U.S. dollar, the one-year conventional mortgage rate is down 275 basis points since July to 11.00 per cent. The prime business rate is also down -- 150 basis points since October to 11.50 per cent.

These facts are an encouraging indication of what can be done. There is, of course, a much fuller story of the tasks that remain.

As we have seen in recent days, we are not immune from international pressures caused in large measure by U.S. monetary and fiscal policy. Staggering U.S. deficits continue to force upon America a monetary policy that will keep all western currencies under pressure. Ours continues to perform far better than most. Certainly we will benefit in terms of trade, exports and tourism from the differential. There are concerns on the other side of which we must all be mindful, and about which the government is by no means complacent.

In the end, the strength of our dollar and the vitality of our economy will be influenced by the process of economic renewal and growth that our government has initiated.

Our November Agenda for Economic Renewal presents the key issues in building the stronger foundation and the improved climate for growth that our economy requires. It responds to the need for new policies and a new way of making those policies, for a fiscally responsible government, and for an economy carried forward by renewed growth and vitality in the private sector.

My colleagues and I are listening to and talking with representatives from the private sector, other governments and across the full spectrum of Canadian society. We see and hear the spirit of co-operation and determination growing. And at the First Ministers' conference two weeks ago, the provinces wholeheartedly pledged their co-operation and participation in the economic renewal process.

Active consultations with the provinces, the private sector and representatives of all sectors of the economy will continue. Later this month, the National Economic Conference will carry the process a step further. As soon as possible after the conference, a budget will be tabled. And the process will not end there. Further action -- in step with the demands of the growing economy -- will be taken in the following months and years -- as we move toward lasting economic renewal.

Economic renewal requires an efficient and flexible capital market. The agenda paper clearly identifies the financial sector as an influential link in the renewal process. Of course, many changes in the financial industry have already taken place in Canada. New technology and increased competition both domestically and internationally, the proliferation of innovative financial products and the development of varied roles within traditional institutions have highlighted the need for regulatory changes.

The government is keenly interested in proposals and the views about change that are brought to us. Progressive reforms instituted in an orderly fashion are essential, not only to the effective functioning of financial markets, but to the maintenance of confidence and the protection of investors and savers. At the same time, we can work for greater compatibility in intergovernmental regulations.

Over the years, tradition and evolution have worked hand in hand to ensure the continuing smooth functioning of Canadian financial institutions. The industry introduced the possibilities of change gradually through such modest features as night deposit slots. Then those seductive little plastic cards were issued by financial institutions. Computers opened up the option of daily interest accounts. Automatic teller machines provided hands-on evidence that financial institutions are on the leading edge of consumer technology.

The dialogue on financial institutions also focuses on foreign bank operations. There's been a lot of talk about foreign ownership of all kinds in Canada. And the key issues are the same: the stimulation of healthy competition, economic development and -- always -- what is best for all Canadians. There have been some important changes in this area in recent years.

The 1980 Bank Act revisions allowed, for the first time, foreign bank subsidiaries to become full members of the Canadian banking community. This policy was undertaken to reap the benefits of increased competition and innovation that the foreign banks would bring with them. At the time, however, there were serious concerns that Canadian control of our financial sector should not be eroded. Consequently, the foreign bank sector was limited to 8 per cent of the total domestic assets of the entire banking system.

Last year, this domestic asset ceiling was raised from 8 to 16 per cent following an extensive examination of the impact of the foreign bank subsidiaries by an all-party committee of the House of Commons. In its investigations, the committee found substantial evidence that the foreign banks operating in Canada have significantly increased competition in the Canadian banking system. The level of the new ceiling should provide ample room for the foreign bank sector to expand in the years to come, while ensuring that the banking industry remains predominantly Canadian controlled. In this regard, I am confident that the foreign banks will continue to contribute to the development of an efficient and dynamic financial system that responds to the needs of Canadian borrowers and savers.

The next revisions for the Bank Act are scheduled for 1990. And the examination of the Act will begin before then. By mid-1986, the Department of Finance is going to be gearing up for the 1990 revisions.

In the meantime the Finance Department is working feverishly to put the final touches on the discussion paper on financial institutions. As you know, my officials have worked closely with all participants in the financial sector -- investors, borrowers and the intermediaries, the institutions -- with the objective of ensuring that the regulatory structure promotes efficiency and stability in the financial sector. The process, I think, has been useful. We all have a great deal at stake in the proper functioning of our financial institutions. And the results will soon be presented in a public discussion paper.

Without scooping or prejudging the conclusions of the financial institutions paper, my general belief is that our financial system has served us well, but we should all be open to reforms which would make it even stronger and that would meet changing needs into the future.

The principles and purposes that I have brought to the reform process are quite clear and precise. The need to reduce conflict of interest and prohibit self-dealing; the need to enhance consumer protection and information; the need to expand competition and promote flexibility and efficiency; the need to keep Canada current with financial marketplace realities world-wide; and the need to foster the expansion of the financial community so as to create more sources of capital for small and medium size business -- and the consumer.

The paper will be followed by extensive discussions with the private sector. You will be invited to present your views. The financial community has not been shy in the past about keeping the government informed of its priorities. And I can tell you that it is important that you continue to do so. That's not flattery, it's fact.

Most Canadians have justifiably placed a great deal of faith in our financial institutions. Building and keeping the faith is a heavy responsibility for the government and for the financial community itself. No amount of regulatory restrictions can guarantee the high degree of public confidence that is so fundamental to your success.

In step with the financial institution discussion paper will be the report of the private sector committee on our Canada Deposit Insurance Corporation. Deposit insurance is very much an area which needs to be reformed as events in recent years have overtaken the original mandate of the CDIC.

Although a Conservative government will provide the framework, the ultimate responsibility for maintaining confidence in the traditional smooth and efficient functioning of the financial services industry rests in your hands and those of your competitors in the financial sector. And I am sure you wouldn't have it any other way.

Clearly, the financial community has moved with the times. But change has not always produced unmixed blessings. Consumers have gained in many ways, but the public's perceptions about the financial sector are not, as you know, universally positive.

We in government will do our best to provide a framework that responds positively to forces in the economy and the industry while assisting public confidence in the financial sector. I believe that nothing will do more for that confidence than a demonstration that Canada's financial institutions are playing an even more dynamic role in meeting the capital needs of a revitalized economy.

Of course, your prospects for continuing success are intricately linked with that of the whole economy. Here again, our government's goal is to help provide the broad conditions in which the private sector can get on with what it does best -- raising and investing capital, putting people and ideas and money to work in beneficial ways.

In the end, the capital marketplace, must be seen not just as a facility for other activities, but as a source of new activity, innovation and productivity itself.

Within the context of due diligence, prudence and integrity, we must sustain Canada's financial industry as an engine of growth, an instrument of economic advancement and personal confidence for our people.

That is how I saw the industry when I was part of it. That's how, as the Minister responsible, I intend to foster its progress.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate Release

Ottawa, March 6, 1985
85-41

CANADA TO RAISE FUNDS IN THE EUROBOND MARKET

The Honourable Michael Wilson, Minister of Finance, announced today that the Government of Canada has made arrangements to raise funds in the Eurobond market.

The public financing, in the amount of U.S. $500 million, is being offered to investors today. It consists of a single maturity with a term of five years. The notes bear annual interest coupons of 11 1/2 per cent and have been priced at par. The notes are non-callable until maturity on March 22, 1990.

The offering is being placed through an international syndicate of banks and investment dealers headed by Deutsche Bank AG, Credit Suisse First Boston Limited, Orion Royal Bank Limited and Wood Gundy Limited.

In making this announcement, Mr. Wilson noted that part of the proceeds from the new financing will be used to replace funds being applied towards the redemption of a Swiss franc 500 million note issue (about U.S. $170 million) maturing on March 14, 1985. This financing was originally arranged by the Government of Canada in 1979. The balance of the proceeds from the new financing will be added to Canada's official holdings of international reserves.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 2000hrs. EST

Ottawa, March 7, 1985

85-43

Notes for an address
by the Honourable Barbara McDougall
Minister of State (Finance)
to the Canadian Co-operative Credit Society
Ottawa
March 7, 1985

CHECK AGAINST DELIVERY

It is a pleasure for me to be invited to speak at your annual March break -- your board meeting in Ottawa. I met and talked with representatives of the Canadian co-operative movement in February and I look forward to future opportunities to meet with you and your colleagues across the country.

As some of you may know, I had the distinct honour in September of being elected to Parliament and appointed to Prime Minister Mulroney's cabinet. My short time there has already confirmed to me that my decision to change careers from the financial community was the right one. I have been active in the Progressive Conservative Party for some time and eventually decided to run because of my firm belief in a business-like approach to government.

As you know, the Main Estimates tabled last week by my colleague, the President of the Treasury Board, indicated that our government currently is saddled with a debt servicing program of $25.5 billion. The depressing fact is that paying the interest on the public debt is by far the largest single program of the federal government. This is a huge concern for our government. And one with which we plan to come to terms.

In the election campaign, we promised a "feet firmly planted on the ground" approach to government. Realistically, we said, it is time for a government which can find solutions to difficult problems instead of merely treating the symptoms. And we said we had faith in the future. We believe in the ability, the determination and the co-operative spirit of Canadians to help examine the old ways of doing things, to find better ways and to make them work. It seems to me that the co-op movement developed out of the same needs -- to address existing problems through new initiatives and to make them work.

Canadians overwhelmingly supported the need for a change to economic revitalization led by the private sector. They voted for change toward a prosperous economic future based on realism and faith. And just as the co-op movement involves its membership in decision-making, so is the government involving Canadians in far reaching discussions to recharge the economy.

As a member of Brian Mulroney's Conservative government, I believe that the way to a stable and prosperous future must be led by a revitalized and growing private sector. I don't believe in government handouts. I believe in hard work combined with fairness and protection for those most in need.

The co-operative movement has exemplified these characteristics. You are directed by your members and have grown largely without the need of direct financial assistance from government. It is your initiative and your determination which led to the development and continuing growth and success of the co-op system. Credit unions, caisses populaires, co-operative trust and co-operative insurance companies have participated significantly in this process.

The caisses populaires of Quebec, for instance, developed to meet local needs not addressed by the existing financial institutions. And they encouraged economy and thrift and the provision of productive capital for local enterprises. When Alphonse Desjardins opened the first Canadian caisse populaire in Lévis, Quebec, he couldn't have foreseen his impact on Canadian social and financial development.

In 1931, the Antigonish movement also developed to meet local needs in Atlantic Canada. In the 1930s as well, the agricultural economy on the Prairies suffered enormously and the traditional financial system was not able to meet local needs. Within the deeply rooted Western experience of collective action, there was a built-in receptiveness to the principles of co-operative credit. Since that time, prairie co-ops have grown increasingly influential.

The Canadian Wheat Board, for example, has been greatly assisted in its export responsibilities by ExCan, a co-operative made up of other co-operatives -- the Saskatchewan and Alberta Wheat Pools and the Manitoba Pool Elevators -- which are large and efficient export agents for the Board. As well, they act as grain collection agencies for taking delivery of grain for the Board. And 1984 amendments to the Canadian Wheat Board Act now allow the Board to borrow funds from credit unions, whereas it was previously restricted to chartered banks.

My colleague, the Honourable Charles Mayer, who is responsible for the Wheat Board, is also the government's liaison with the co-operative community. The designation of a cabinet minister in this role acknowledges the vital and meaningful place of co-ops in our society.

Co-ops began as a means for individuals to help themselves and they continue to thrive on that same strong principle all across Canada. The government believes that a determined self-help approach throughout our economy will lead the way to a prosperous and stable future.

In several ways your community has served to illustrate that "where there's a will there's a way". For example, to you co-operation among co-operatives may simply be the adherence to one of the six co-op principles. But it also demonstrates regional and sectoral understanding on a national scale.

The innovative use of technology is another important lesson brought to us by co-operatives. Your use of electronic data processing equipment has blazed new trails across the financial landscape. In the financial community, credit unions introduced daily interest savings accounts and consolidated monthly statements. You were also pioneers in the use of automatic teller machines.

The coming of new technology is not always met with universal enthusiasm. There are those who see it as a force that will displace workers. That concept cannot be denied. But, neither can technology be denied. It is here and here to stay. And the co-op community has managed to introduce and expand its use without losing your human touch -- and even without intimidating the consumer!

The government is prepared to work with business and labour to help those who may be displaced by advancing technology and to ensure that the benefits of progress are shared by everyone right across the country. Working towards a better future for all Canadians is a key theme of the National Economic Conference later this month. I am very pleased that the knowledge and experience of the co-operative sector was represented on the advisory committee for this conference by Raymond Blais of the Mouvement Desjardins.

My colleagues and I are listening to and talking with representatives from the private sector, other governments and across the full spectrum of Canadian society. We see and hear the spirit of co-operation and determination growing. Always, our message is the same: economic prosperity in Canada depends on the private sector. And the federal government is determined to provide an environment conducive to private sector growth and development.

There is another element to your success that should be remembered as we urge the private sector on to new growth and investment. You have drawn strength from the fact that where it is most appropriate, you have small semi-autonomous "units" and where it is necessary, you can unite for planning and collective action.

Perhaps, though, the most significant features of the co-operative movement are not directly related to finances. Your democratic principles -- one member, one vote -- and your dedication to education have enhanced the financial knowledge, skills and understanding of more people than many other institutions in our society.

It is very tempting to spend all of my brief time with you just listing the ways in which the co-operative movement has developed -- and the terrific innovations that have taken place as the co-operative credit movement has matured. Likewise, I could talk about the significant role the co-operative financial sector has played in the development of each region of the country.

Tonight, however, I would like to talk to you briefly about my major area of policy responsibility and one that I know you have an interest in -- the financial system in Canada.

Over the years, tradition and evolution have worked hand in hand to ensure the smooth functioning of Canadian financial institutions. I've worked in the system and now my primary cabinet responsibility is for the financial sector. My role is to address the institutions' concerns and those of its customers and to make the system better.

Officials in the Department of Finance have been working closely with all participants in the financial sector -- the depositors, the borrowers and, of course, the institutions -- to explore ways of improving the efficiency, where possible, of this sector. Our objective in this work is to ensure that the regulatory structure promotes efficiency and stability in the financial sector.

In a few weeks I hope to be tabling a discussion paper on financial insitutions. Without scooping the paper, let me say that it is my general belief that the

present Canadian financial system is a good one, but that we should all welcome some government reforms where required to make it stronger. And one of the ways to do that is to encourage competition in the interests of consumers.

The principles and purposes that I have brought to the reform process are quite clear and precise. The need to reduce conflict of interest and prohibit self-dealing; the need to enhance consumer protection and information; the need to expand competition and promote flexibility and efficiency; the need to keep Canada current with financial marketplace realities worldwide; the need to foster the expansion of the financial community thereby creating more sources of capital for small and medium-sized business -- and for the consumer. These are the issues I am addressing.

I know the co-op credit movement has fostered competition and brought new financial services into the marketplace. Consumers have benefitted directly and indirectly through your impact on other financial institutions.

My paper on financial institutions will be followed by extensive discussions with the private sector. Your response to the paper will be most carefully considered and I look forward to your comments.

Although our review of the financial sector is taking a comprehensive view, we have to remember that your member organizations are regulated more directly by provincial legislation.

Nevertheless, the federal government has enhanced your role in our financial community. For example, in 1980 the Canadian Payments Association was developed to permit non-bank financial institutions to join banks as members of the clearing system. Amendments to the Financial Administration Act in 1982 permitted the government to place deposits with all members of the Canadian Payments Association. And in 1983 a formula was established whereby each sector can receive government deposits close to their relative volumes of Canadian deposits.

One of the key goals is to work more closely with provincial governments to further "harmonize" our efforts in the financial sector.

The forthcoming paper will be a further important step in an ongoing process of review and change. The decennial review of the Bank Act is another step. This act provides the banking sector with a stable framework -- a sense of stability. The federal government would like to put all of its financial institution legislation on the same cycle. Doing so would provide greater harmony in the financial system -- for institutions and consumers alike.

I've heard it said there is no fertile ground left in the system on which any branch of the financial community can live. Increased competition from domestic and foreign banks has meant that the interest rate spread that once worked to the advantage of credit unions has disappeared. And the question is put: What are the new frontiers for credit unions, caisses populaires and other co-ops?

Groucho Marx could have been referring to today's situation when he said: "It isn't so much that hard times are coming; the change observed is mostly soft times going." Clearly, the financial community has moved with the times. But change has not always produced unmixed blessings. Consumers have gained in many ways, but the public's perceptions about the institutions -- even the credit unions and caisses populaires -- are not, as you know, universally positive.

We in government will do our best to provide a framework that responds positively to forces in the economy and the industry while assisting public confidence in the financial sector. But I believe that nothing will do more for that confidence than a demonstration by the institutions that they are playing an even more dynamic role in meeting the needs of the country and individuals.

All financial institutions have gone through bad times. You didn't all travel in the same ship, but you're in the same boat now. The member-oriented principles and practices of the financial co-ops may have squeezed some of the wind out of your sails. But, you adapted, you changed and you improved.

In the best-selling book, "In Search of Excellence", one of the qualities of excellent companies analysed is a people-oriented approach to management. The authors suggest that the human approach in business is the way of the future. They advocate a "do it, try it, fix it" approach, an approach that cares for customers and encourages productivity through motivating individuals.

Co-ops exemplify private enterprise motivation with a significant twist -- democratic control by members with surplus earnings shared in proportion to members' use of services. Overall, dedication to customers -- member owners -- is your key to success.

Clearly, your destination for the future is the same as it was in the past. Co-op credit institutions can continue to provide -- in fact to develop -- services uniquely designed to meet the needs of members, and before other institutions. That has been your strength.

Now that you have been recognized as leaders and innovators, you are observed even more intently by the more traditional financial institutions. Your activities are monitored more closely. And successful innovations are copied more quickly. That's a new reality for you -- and for all of the players.

Competition within the financial community is not likely to decrease. The innovative, adaptable, self-reliant attitudes and approaches you have demonstrated in the past will have to be expanded. And, the intense competition will no doubt require that all institutions learn better techniques to market their skills, services and products.

Credit unions and caisses populaires have come a long way. The principles and practices that make you unique will ensure that you continue to play a leading role in the financial community. I encourage your innovative spirit. I applaud your leadership.

I look forward to your continuing contribution not only to the financial sector but to the national job of renewing the Canadian economy. We can build a better future for all Canadians if we combine our best efforts as a nation as effectively as you have in the co-operative movement.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Immediate release

Friday, March 22, 1985

85-50

Notes for an address
by the Honourable Michael Wilson
Minister of Finance
to the National Economic Conference
Ottawa
March 22, 1985

Canada

Ottawa, Canada K1A 0G5
613 992-1573

INTRODUCTION

I am pleased to join in welcoming to this National Economic Conference both the delegates and all those watching and listening here and across Canada.

I want to express my appreciation for the effort you have made to be part of this important meeting. I particularly want to thank Stanley Hartt for his tireless work as conference co-ordinator and the members of the conference private sector advisory committee for their vital contribution in planning and preparing this meeting.

The Prime Minister said it well last night and I endorse his message: The opportunity is here to make a large and lasting contribution to the renewal of the Canadian economy and to the national reconciliation that is essential to that endeavour.

Let us be clear about the nature of this meeting. This is a conference on the economy, but it is not a conference of economists.

Although the government hopes to learn a great deal from this meeting, it is not a government conference. This is a Canadian conference, a conference of Canadians and for Canadians.

The many voices of Canada are here today -- and we will be listening to all of them.

This meeting can be seen as a vital component in the most extensive and intensive round of consultation and public debate ever undertaken by a national government -- a process that we plan to continue and which we believe is a prerequisite to reform. It is also a vital part of my own pre-budget policy development exercise -- an exercise that is still open to

the advice and ideas generated by this conference. But most importantly this conference signifies to me the beginning of a new era of national reconciliation -- the start of a co-operative effort that will allow us to make economic, social and cultural progress.

Let me quickly state that when I say co-operative effort I don't mean unanimity of opinion.

A wide range of opinion is not only inevitable, it is a healthy sign of the diversity which is one of the great strengths of our society and our economy.

And we are not here to create the illusion of unanimity by avoiding the difficult issues or muffling honest disagreement.

Instead, I hope we are here to face reality -- the reality of unemployment; the reality of our financial situation; the reality of our living in an interdependent, competitive and fast-changing world.

The challenge facing all of us here today is to discuss, openly and realistically, how we can work together to achieve what I know is our common goal: the goal of job creation and wealth creation.

I use the term job and wealth creation advisedly. I don't think we are here to talk about jobs for their own sake, if that means returning to a society of manual labour and low living standards.

Neither are we here to talk about growth for growth's sake alone -- shortsighted growth which might damage the quality of Canadian life.

Instead, we are here to discuss growth for the sake of jobs -- how we can foster the economic activity that will provide satisfying and useful work and create the national wealth to finance social and cultural progress.

But, if we are going to make such progress, we must first recognize where we stand and the very real obstacles that stand in our way.

ECONOMIC AND FISCAL PERFORMANCE

Let me provide a brief update on our economic performance this past year.

As you may recall, my November forecast looked for growth of 4.2 per cent during 1984.

We know now that the year came in somewhat better than expected at 4.7 per cent real growth.

This improvement was largely due to an export performance that continued stronger than expected, in large part due to increased exports to the booming U.S. market.

We made real improvements on the inflation front last year because of modest wage settlements and our best productivity performance since the early 1970s. The annual rate of increase in the Consumer Price Index was 4.4 per cent -- better than U.S. performance. And we achieved this despite a 5.5 per cent increase in import prices.

I expect the rate of increase of the CPI to be about 4 per cent in 1985, although there will be the inevitable month to month fluctuations. But this continuing control of inflation can be achieved only if price, wage and salary increases remain moderate and we continue to work toward improved productivity and international competitiveness.

Employment performance last year was somewhat stronger than anticipated because of a better-than-expected fourth quarter -- and that's a good sign.

In terms of federal government finances for the 1984-85 fiscal year, we expect our spending control measures will result in expenditures being slightly lower than forecast in November.

Unfortunately, income tax collections have also been lower than expected over the last four months. As a result, I anticipate the 1984-85 deficit will be slightly higher than the $34.5 billion I forecast in November.

But those statistics deal primarily with the past. We are here to deal with our future.

Last November I noted a number of risks affecting the outlook for economic and fiscal performance in the period 1986-90. I wish I could tell you that those risks have dissipated, but that is simply not the case. If anything, the risk of higher than projected interest rates in the United States is now greater than it was in November. We will have to continue living with an external economic environment that is uncertain at best.

What this tells us is that we will have to work even harder and smarter to achieve our full growth potential.

During these past months I have had the opportunity to consult with many Canadians. My clear sense of these meetings is that Canadians know we can do better.

But they also know there is no quick fix to our economic problems; no shortcut to job and wealth creation. They know that if government spending and borrowing were the way to achieve prosperity, we would have gotten there long ago.

Ten years of stimulation and deficits have not solved our problems. They have stimulated only a mountain of government debt -- a mountain of debt which is now growing twice as fast as the economy. Even worse, not only did 10 years of attempting to solve our problems this way fail to produce the desired growth and jobs, but now, as a result, we have less and less flexibility to deal with pressing public priorities.

Let me put it in simple terms.

Ten years ago it took one of every eight tax dollars to cover the interest on the debt.

Today one out of every three tax dollars goes to pay interest on our current debt.

Nearly 80 cents out of every dollar of personal income tax that you and I pay is now required to pay the interest on that debt. That amounts to all the personal income tax collected from Canadians with incomes of less than $40,000 a year.

The momentum of deficits and the accumulating debt is such that growth alone will not solve the problem. Last year, we achieved 4.7 per cent real growth and the debt still grew by $34 billion or 22 per cent. The United States, with a similar problem, achieved almost seven per cent growth and their debt still grew by $195 billion or 14 per cent.

STRATEGY FOR ECONOMIC RENEWAL

I have outlined the magnitude of the problems. So what can we do about them?

Last November in the government's Agenda for Economic Renewal we charted a comprehensive course of action on three major fronts:

First, to limit and ultimately reverse the massive build-up in public debt.

Second, to redefine the role of government to provide a better framework for growth and job creation and less of an obstacle to change and innovation.

Third, to foster higher investment, greater innovation, increased international competitiveness and a positive climate for the birth and growth of new enterprise.

Let me discuss each in turn.

First, we must put our fiscal house in order.

As I have just explained, high deficits and mounting debt represent a major threat to economic growth and renewal.

That is <u>not</u> an ideological statement.

It simply recognizes the fact that we have a very serious problem of compounding interest on our debt.

Deficit control is not an end in itself. It is the means to achieve our goal of sustainable job and wealth creation.

That is why the government said in November that putting our fiscal house in order must be the first element of economic renewal.

That is why we moved rapidly to control government expenditures.

That is why we have ended the revenue hemorrhages occurring through the scientific research tax credit and through certain uses of limited partnerships.

That is why Deputy Prime Minister Nielsen is chairing a task force which is combing government for potential savings.

And that is why we must and will continue the thrust of deficit control in the upcoming budget. To do it, I need your help. The key questions that I hope you will address at this conference are how, how much and how fast.

I believe our priority in deficit control should be expenditure reduction, including improved efficiency of program delivery. More efficiency in government management is essential, but it cannot by itself solve the deficit problem. We will have to examine existing programs and we will also have to look closely at tax expenditures. But our total expenditures are so large relative to our revenue base, we have to face the possibility that even after we have done everything possible to reduce expenditures we may still have a problem with deficits and accumulating debt. I would welcome the views of conference participants on this vital issue.

While deficit control is necessary to get the economic pie growing again, it is not sufficient. That's why we said in November that two other elements are equally important if we are to achieve our goal of job and wealth creation.

Element number two is to redefine the role of government so it becomes less of an obstacle to growth.

An intricate web of regulations, subsidies and other forms of intervention has been built up over the years. I can only assume that all of them had some rationale when first introduced. But their overall impact has been to make the economy less flexible, less resilient, less able to adjust to change in a rapidly changing world. What was seen as a windbreaker has become, in many cases, a straitjacket. Taken together these government interventions have created a major obstacle to growth -- more diffuse, less easy to measure, but every bit as real as our financial problems.

Step by step, we are attempting to remove these impediments so we can provide a policy framework which encourages job and wealth creation.

People have asked me why we have not acted more quickly and made more decisions sooner. My answer is simple. We did act quickly in a number of areas. But, in other areas, we have not done so because it is essential to develop better understanding of the available options; and better co-operation in ensuring that our ultimate decisions work to their best effect.

Our agenda is clear. We are determined to act:

- to promote healthy competition through a modern Competition Act;
- to relieve the paperwork burden on small business;
- to streamline the regulation of transportation, communications and financial services;
- to update our patent and copyright laws;
- to simplify our tax law;
- to rationalize our system of industrial grants and subsidies;

- to remove obstacles to investment;
- to free up our oil and gas sectors from their tax and regulatory burden; and
- to reform many other areas of public policy.

In tackling these issues, and others, we are determined to make haste slowly so we get it right the first time.

And we must do more than redefining the role of government and removing obstacles to growth. We must also act to create a positive environment for investment, innovation and increased international competitiveness. This is the third element of our strategy for economic renewal.

Let me discuss where we are focussing our efforts. First, investment.

If we are to foster sustained economic growth, it is essential that we encourage job-creating investment in new plant and equipment.

A major task is to strengthen support for small business -- the source of all net new job creation in Canada in recent years. Small business people need better access to equity capital. Most of all, they need assurances that the rewards of success will not be taken away by a capricious government that moves the goalposts at will. Ideas for change in this area have been set out in a consultation paper released early this year. We intend to follow through and I'd like to hear your views.

We must review our tax and grant system to ensure that it encourages not just more investment but more efficient investment. We believe there is a need to move away from the current welter of special preferences to a system of more general incentives. At the same time, we must recognize the need for carefully targetted incentives to assist in regional development.

The energy sector has a major role to play in economic renewal and its growth will be enhanced by a return to market-based pricing, by more realistic and reliable fiscal incentives and by easing the burden of regulation.

We believe a strong and growing energy sector is vital to our national economy -- not just because of our national need for oil security, and not just because the energy sector makes up 30 per cent of total business investment but also because it is a major customer for business -- both large and small -- right across this country.

Second, trade.

Secured access to foreign markets is another vital component in any realistic strategy for economic renewal.

I say that for a number of reasons.

The most obvious one is that millions of Canadians work today to serve foreign customers in industries ranging from forestry to automobiles. And those jobs in turn create work for Canadians servicing the needs of our exporters.

Simply put, trade means jobs, and lost access to foreign markets means lost jobs.

But there are other factors to consider.

Secured market access is essential to our international competitiveness. It is fundamental to the development of competitive economies of scale and specialization -- the kind of industrial adjustment that will allow us not only to increase exports but also to compete better against imports here at home.

Access to foreign markets -- or our lack of it -- is a major consideration in plant location decisions.

It is a critical factor in attracting new, job-creating foreign investment and in ensuring that our domestic firms can grow from their Canadian base.

That is why we say that Canadians trade not just for prosperity -- we trade for survival. That is why the trade declaration signed this week by the Prime Minister and President Reagan is so important for future growth and jobs. And that is why we will be listening to your views with great interest on this important issue.

A third focus is technology.

Much has been made of the Information Revolution, the Post-Industrial Society, the Third Wave. The underlying theme of all these attempts to describe and understand what is happening is the quickening pace of change and the impact of new technology on the way we will live and work.

Technological change can be a frightening thing to some people. This is understandable.

I realize that many see the new technologies only as a threat to existing jobs. And, yes, certain jobs will be eliminated.

But while technological change is a powerful wave, it is not a tidal wave washing away everything in its course. It is a force that can be managed and harnessed to provide a better life for us all.

New technology represents an opportunity -- an opportunity to produce new goods and services and create new jobs. More importantly, it gives us the opportunity to save many more jobs in existing industries through increased productivity.

New technology should be seen as a tool, a powerful tool to help make us more competitive in the world marketplace.

Look at the automobile industry. Without the use of the most modern technology, could the industry hope to survive when its international competitors are using it? Look at the use of laser cutters in the textile industry. If industries in the rest of the world are using the latest technology, how can our industries hope to compete without it? The simple answer is that they can't.

What we are saying is this: Producing high technology is important. But more important is using technology in our mature industries -- in textiles and clothing, mining and forestry, automobiles and steel production.

And that is why we are emphasizing not only research and development but the adoption, application and diffusion of the best technology available. We believe this is vitally important if we are to remain competitive so we can maintain and increase our standard of living.

So far I have talked of technology as a tool. It is also a force for job equity. As we enter the information age, old attitudes and obstacles to true economic equality for women will wither away. I firmly believe that technological change, combined with other initiatives, will hasten the day when Canadian women enjoy true economic equality.

Some of those initiatives involve the important question of training and retraining.

If we are going to use technology to our advantage, we must train and retrain Canadians -- men and women, the young and the not-so-young -- to use these new tools. And we must also accept the reality that technological change will require adaptation on the part of some Canadian workers. That is an unavoidable reality if we are not to put even more jobs at risk. Workers themselves have an extremely important role to play in managing that adaptation.

We must ensure that our programs not only provide income support for those who temporarily need it but also facilitate training and mobility for those whose prospects are bleak. Opportunities to acquire new skills and incentives to take the risks of mobility must be created. And I look forward to hearing your ideas.

CONCLUSION

So far, I have talked almost exclusively about the government's role in the economy. We do not have a "hands-on" industrial strategy. We do have a clearly defined plan for economic development and renewal. The government's plan is clear and on the table for all to see.

It is based on our belief that government must provide a stable framework for private decision-makers.

Let me now emphasize some of the challenges that Canadian individuals and firms must face if we are to make this plan work.

I think, for example, of the need to renew the training system for work in the private sector -- a task that clearly must involve a high order of private sector involvement. I think of the need for improved management skills -- of working smarter. And I think of the need for renewal of the industrial relations system -- of working together; of recognizing that to compete abroad we must co-operate at home.

Many of you will recall a survey by the European Management Forum which noted the low esteem in which Canadian management competence and labour-management relations are held in the industrial world. Yet, we have in Canada industries and products that have demonstrated world-class quality and reliability and have maintained their strength in ever-tougher world markets. I believe we can achieve this kind of excellence on a much wider scale.

Higher productivity is essential. I am encouraged by the promising start of co-operative work on labour market and productivity issues that is now being carried out by the Canadian Labour Market and Productivity Centre. I am encouraged by the growing understanding that just as government must work to provide the framework for growth, so must business and labour. The same applies to our schools, colleges and training institutions; to our research centres; to every part of our economy and to everyone who can make a contribution to economic renewal.

We are consulting on these issues not only to find out what you think we in the government should do but to stimulate ideas about what you in the private sector can and must do to improve economic performance. The solutions must come from all parts of society; from management and labour, from big business and small, from our universities and voluntary organizations. All of us share equally in the challenge.

This morning you have heard from me and you will be hearing a great deal from others on issues such as efficiency, productivity, becoming more competitive, improving performance, building the strength to fight for a better share of world markets and to continue taking on the best from around the world.

I recognize some may feel that there is a less than fully human aspect to these issues, a certain "survival of the fittest" quality that may seem harsh, cold and alien to many of the values that we Canadians have worked to build into the social system of this country.

So that there be no misunderstanding, let me say as plainly as possible why I believe it is so important to renew the economy, to be competitive in the world, to generate expansion, to attract new investment from here and abroad. It is important not only to create the jobs that are the prime means for Canadians to share in the benefits of Canadian society; it is important to create the wealth that we share among all Canadians through a wide range of public services, including a social security system that is founded on helping those who need help and caring for those who cannot care for themselves.

Canadians must face the hard and changing reality of what it will take to make the country's economy successful. But let us not confuse this with any change in the fundamental principles that guide us in ensuring a decent quality of life, a fair share of the benefits of that success.

Fairness, tolerance and compassion must be as much a part of our agenda for economic renewal as are efficiency, productivity and performance. The economy does not exist for itself. It exists for people. It consists of people. And it will work for all the people of Canada if we work not only for ourselves but for each other.

Fairness and decency dictate that we fully recognize the contributions to the economy that can be made by the traditionally disadvantaged -- women, natives, the disabled, the visible minorities -- and the importance of equality programs to provide greater opportunity for their contributions.

Making the economy work for all Canadians is the goal of this conference. And it will be the goal of the forthcoming budget to which this meeting can make an important contribution.

I am announcing today that the budget will be presented during the week of May 20. This will provide time to take full account of the useful suggestions from this meeting.

For the larger part of its existence, this nation has lived off its natural resources. That worked quite well for a long time, but times changed. In recent years, however, we have tried to live off our credit. That has not worked at all. Now, it is time for Canadians to live off our wits, our initiative, our energy and our capacity to pull together.

My discussions with people in all parts of Canada tell me that confidence is being restored and that we have what it takes to succeed. But there is also a growing awareness that just having what it takes is not enough. We have to do it. We have to stop talking about our great potential and get on with the task of realizing it.

That is what this conference is about.

I wish you well in your deliberations.

I look forward to your comments and ideas.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, March 22, 1985
85-51

ECONOMIC RENEWAL IS THE KEY, FINANCE MINISTER WILSON TELLS NATIONAL ECONOMIC CONFERENCE

Economic renewal is the key to the creation of the jobs and wealth that will enable Canadians to maintain and improve their standard of living in a tough, competitive world, Finance Minister Michael Wilson told the National Economic Conference today.

To achieve our economic potential as individuals and as a country, Canadians must work harder, work smarter and work together, the Minister told the opening session of the conference.

"The opportunity is here to make a large and lasting contribution to the renewal of the Canadian economy and the national reconciliation that is essential to that endeavour," he said of the conference of Canadians from every region and every sector of the economy.

The Minister told delegates that the conference is playing a vital role in consultations leading up to the budget which he announced will be presented during the week of May 20. That date will allow time for the work of the conference to be fully considered in the development of the budget, he said, asking delegates for ideas on the full range of fiscal and economic issues facing the government and the country.

The Minister reaffirmed the need for action on the three major challenges set out in the Agenda for Economic Renewal in November:

.../2

- to put the government's fiscal house in order;

- to remove obstacles to growth and redefine the role of government to provide a better framework for growth and job creation;

- to foster higher investment, greater innovation, increased international competitiveness and a positive climate for the birth and growth of new enterprise.

Mr. Wilson said high deficits and mounting debt are "a major threat to economic growth and renewal" and added:

"This is not an ideological statement. It simply recognizes the fact that we have a very serious problem of compounding interest on our debt ... We must and will continue the thrust of deficit control in the upcoming budget."

The Minister also underlined the government's determination to take actions which deal with the "intricate web of regulations, subsidies and other forms of intervention that have built up over the years" and which now make the economy "less flexible, less resilient, less able to adjust to change in a rapidly changing world."

"Step by step, we are attempting to remove these impediments so we can provide a policy framework which encourages job and wealth creation," the Minister told the conference.

And he urged the delegates to face the need for action on a wide front to ensure "a positive environment for investment, innovation and increased international competitiveness."

Both government and the private sector have key roles to play in meeting the critical challenges of encouraging the growth of the small business sector, developing the potential of the energy industry, improving Canada's trade performance, making full use of technology and ensuring that Canadians are trained to take advantage of new work opportunities, the Minister said.

.../3

Besides renewing the training system for work in the private sector, the Minister said, it is vital that the industrial relations system be renewed to recognize that being competitive abroad means being co-operative at home. And he noted the need for improved management skills in a fast-changing economic world.

The minister acknowledged that some people may feel that emphasis on efficiency, productivity, competitiveness and improved performance implies a new attitude that represents a change from "many of the values that we Canadians have tried to build into the social system of this country."

On the contrary, he said, economic renewal and all that it involves will enable Canadians to share broadly in the benefits of growth through new employment opportunities and a strong social benefits system.

"Canadians must face the hard and changing reality of what it will take to make the country's economy successful. But let us not confuse this with any change in the fundamental principles that guide us in ensuring a decent quality of life, a fair share of the benefits of that success."

"The economy does not exist for itself. It exists for people ... and it will work for all the people of Canada if we work not only for ourselves but for each other."

He added that his discussions with people in all parts of Canada during several months of consultations have strengthened his optimism about the economic future and his belief that "we have what it takes to succeed. But there is also a growing awareness that ... we have to stop talking about our potential and get on with the task of realizing it."

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

For release at 10 a.m. EST

Ottawa, April 15, 1985
85-60

DISCUSSION PAPER ON FINANCIAL INSTITUTIONS PUBLISHED

The Honourable Barbara McDougall, Minister of State for Finance, today published a discussion paper with proposals for broad changes in the rules for federally-regulated financial institutions.

"These proposals are designed to promote competition among financial institutions, benefit consumers, and ensure the protection of individual depositors and the soundness of the financial system," the Minister said.

Mrs. McDougall noted that, while the laws governing chartered banks are reviewed regularly, with the last revision in 1980, there has not been a general revision of legislation governing non-bank financial institutions in many decades. The proposals are designed to bring this legislation up to date.

Among the main changes proposed for discussion are:

- Allowing the combination of non-bank financial institutions and a new class of bank under the umbrella of a financial holding company, giving these institutions greater flexibility in packaging financial services to meet the needs of businesses and individuals. This would include creation of a new class of banks -- Schedule C banks -- which could be owned by a financial holding company.

- Adoption of new, tougher rules to ensure consumer protection and the soundness of financial institutions. The government favours a clear-cut, uncompromising ban on self-dealing that would prohibit most business dealings between a financial institution and its controlling interests.

- New steps to enhance the powers of government supervisors.

- Creation of a new public body to investigate complaints and represent consumer interests where conflict-of-interest situations lead to abuse.

"Despite the rapid changes in recent years, Canada's financial institutions have served the market well," Mrs. McDougall said. "They have earned the confidence of Canadians."

The Discussion Process

The Minister said the new paper is intended to stimulate a wide-ranging public discussion. "The government intends to work with the provinces, the public and the financial community to ensure that the legislation responds to the rapid changes taking place in the financial system."

.../2

Canada

Ottawa, Canada K1A 0G5
613 992-1573

The Minister indicated that the government is prepared to consider alternatives to the specific proposals in the discussion paper, but is committed to the underlying principles it seeks to achieve.

Mrs. McDougall added that public comments on these proposals, and on a further technical paper to be issued in the near future, should be submitted to her by the end of July. The government intends to ask a Parliamentary committee to study and report on the paper, and will introduce legislation as soon as possible thereafter.

New Financial Groups

As one way of achieving more flexible institutional structures and increased competition in the financial area, the government proposes allowing the combination of non-bank institutions and a new class of banks under the umbrella of a financial holding company.

This proposal responds to requests by trust companies and other non-bank financial institutions for wider powers to make commercial loans. Rather than broadening the present legislated powers of these institutions, the government favours an alternative approach: allowing financial holding companies to own a bank. This "Schedule C" bank would have the same powers and be subject to the same reserve requirements and other restrictions as banks under Schedules A and B of the Bank Act.

The financial holding company and the affiliated institutions within the group would have to remain distinct corporate entities, with their own boards of directors and financial statements. This would be important in the supervision of their capital adequacy and liquidity and in the operation of deposit insurance. Shifting of assets and liabilities among affiliated institutions would not be permitted.

A financial holding company, through its group of financial institutions, would be able to offer a wide range of financial services. The institutions within a group would continue to be subject to the legislation and regulations applying to each type of institution. For example, a trust company in such a group would have no wider powers than any other trust company.

Investment dealers have traditionally been regulated by the provinces, and some provinces are considering the possibility of allowing greater participation by financial institutions in the ownership of these dealers. The federal government proposes allowing federally-regulated holding companies to participate to the extent permitted by the province involved.

The new system would facilitate "one stop shopping". It would not be a barrier to institutions within a group having common distribution and marketing systems. However, there would be a ban on tied-selling -- for example, where a loan is made contingent on the borrower taking out insurance with a specified company.

The government will discuss arrangements whereby Canadian mutual insurance companies and co-operative credit associations could take advantage of the financial holding company approach, since their present corporate structures do not fit this approach.

.../3

Self-dealing

The existing rules against non-arm's-length lending in trust, mortgage loan and insurance legislation do not cover all types of situations or transactions. The government proposes to broaden this ban and apply it rigorously to all types of financial institutions.

The paper notes: "...failures of some financial institutions have underlined the dangers to which institutions can be exposed where self-dealing, or non-arm's-length transactions, are permitted."

With limited exceptions, a financial institution would be prohibited from engaging in transactions with any person or group of associated persons that is able to control or influence that institution. The same prohibition would apply to transactions with the "significant business interests" of those able to control or influence the institution.

Conflict of Interest

The paper notes that in some situations of conflict of interest, market forces provide a deterrent to abuse where a reputable financial institution is in a position where it has to choose between its own interests and those of its clients.

However, this would not meet all cases, and the government proposes establishing a Financial Conflicts of Interest Office to give smaller investors and depositors a means of pressing their case against an institution which they feel has wrongly treated them. The office would be empowered to investigate complaints, make representations on behalf of complainants, and launch civil court suits to recover losses.

Within a trust company, a clear separation would be maintained between the fiduciary investment decisions made on behalf of trusts, and the company's other operations. This could be done by setting up a "Chinese Wall", preventing the passage of confidential information between different divisions of a financial institution.

Ownership Rules

The government does not propose placing maximum limits on share ownership in non-bank financial institutions along the lines of the existing 10-per-cent limit on individual shareholdings in a chartered bank. It concludes that to apply such a rule to non-bank financial institutions would involve a retroactive restructuring of their ownership which would be disruptive and counter-productive.

The ownership limit in the case of banks has helped minimize possibilities of self-dealing, but it is not the only method of achieving that objective. "Strict controls on self-dealing can accomplish the same thing", the paper says.

Ministerial approval would be required for transfers of significant blocks of shares of financial institutions.

The present rules limiting foreign ownership in financial institutions would be unchanged.

.../4

Other Proposals

The paper outlines a number of possible ways of enhancing the powers of government supervisors to enable them to discharge their duties properly, including broader right of access to records and accounts and the authority to prohibit changes in control of supervised institutions.

The paper makes no suggestions for change in the existing system of deposit insurance, pending the report of a private sector advisory group named recently to review operations of the Canada Deposit Insurance Corporation.

The government is willing to consider changes in the rules relating to the types of investments that can be made by insurance, trust and mortgage loan companies and pension funds. The government would discuss further suggestions to shift the nature of the rules from the current mainly "qualitative" approach, based on earnings and dividend tests for individual investments in company securities, to a "quantitative" or "portfolio" approach based on limiting the proportions of a portfolio invested in each type of security.

The proposals in the paper would not generally apply to Schedule A and B banks. Extensive changes were made to the Bank Act in 1980 and there will be a full decennial review in 1990. However, the paper emphasized the government's concern that its proposals should not place smaller, regional banks at a disadvantage and it will discuss ways of ensuring that such banks can maintain a competitive position pending the next Bank Act revision.

Following the pattern of the decennial review of the Bank Act, a cycle would be introduced for regular future review of legislation governing all financial institutions, with the various acts reviewed at the same time every 10 years under the impetus of a "sunset" clause in each act.

For further information:

Allan Popoff,
Director, Financial Institutions and
Markets Division
(613) 992-4661

Department of Finance Canada

Ministère des Finances Canada

Release

Communiqué

Release at 1230 hours EST

Ottawa, April 15, 1985

85-61

Notes for an address
by the Honourable Barbara McDougall
Minister of State (Finance)
to the Canadian Club
Montreal
April 15, 1985

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

I am honoured with your invitation to be here today. And I would like to take the opportunity it affords me to make my first official statement on the discussion paper on financial sector regulation released this morning in our nation's capital.

It is appropriate that, as Minister of State for Finance, I make my first statement here in Montreal. The financial industry in Canada began here as early as 1792 according to some opinions. The financial institutions based in this city have played a critical role in the expansion of our great country.

Most of the major types of financial institutions were established before Confederation -- before 1867. In fact, the Bank of Montreal opened its doors in 1817 and received its charter a few years later. The belief in Canada that made the first banks successful is again evident in the new optimism growing in this city and in this province. Such optimism bodes well for the financial industry as it does for the overall economy of Quebec and all of Canada.

I am eager, on behalf of the Government of Canada to work with your government in this province, the governments of the other provinces, the financial services industry, consumer associations, and Parliament itself to achieve a broad consensus on the next stage of development for the financial services industry of Canada.

When the Prime Minister appointed me to his Cabinet as Minister of State for Finance, I became responsible for policy for the financial sector. Our government realized that, if we were to achieve our goals for economic renewal, the financial industry would have to play an important role. Consequently, the review of policy for this industry was made a priority.

In examining the issues, I quickly realized there were two realities in the financial services industry with which we had to come to grips: change and consensus. Change that was dynamic and was reshaping the industry; and the consensus that was needed for a coherent and orderly public policy in this area.

I know this audience fully appreciates the reality of change in the financial sector, both in Canada and abroad. The reasons for change are many. Technology is evolving. Markets are shifting. Instability in interest rates and asset values has caused much institutional re-evaluation of market strategies. Innovations abroad are filtering into Canada. Institutions have for these many reasons become wary of narrow specialization and have sought to position themselves to cope with future change.

Needless to say, when the financial system changes, the regulation of financial institutions must be reviewed. To deny the changes that are taking place worldwide -- the differing and complex demands that Canadians are making on the capital markets -- would be ignoring our responsibility to ensure that the financial services industry not only grows and expands, but facilitates the expansion of the other sectors of our economy.

Government policy must address the need to foster greater economic growth, greater public confidence, a greater spirit of enterprise and opportunity throughout the land. Government policy must be forward-looking. It must build a framework to encompass the future, rather than the past.

And we must work with each other -- with the provinces -- with Parliament -- with industry and with labour -- to ensure that as much as possible we have a common resolve and a common commitment to broaden our economic base throughout this country.

This is the spirit of the discussion paper I released this morning.

I want to talk about the clear principles on which, in my view, public policy for the financial sector must be built, and that will govern the way in which I intend to approach a broad discussion process across the country.

The principles which I have brought to the discussion paper are:

- to improve consumer protection
- to strictly control self-dealing
- to provide safeguards against abuses of conflicts of interest
- to promote competition, innovation and efficiency
- to enhance the convenience and options available to customers
- to broaden the sources of credit
- to ensure the soundness of institutions and the stability of the system
- to maintain our international competitiveness and foster domestic growth
- to promote harmonization of federal and provincial policy approaches

Let me state at the outset that the details of the paper are negotiable; the principles are not. Whatever policy finally emerges following public discussion and parliamentary consideration -- and this will be an open process -- it must be consistent with these principles. On that we must be clear.

The substance of the paper consists of how best to implement these principles. The discussion paper outlines an approach that I feel will work. However, I am prepared to listen carefully to all suggestions and to give full consideration to alternative options that are put forward. That is the purpose of this round of public discussions.

As I mentioned, I felt that we had to provide Canadians with concrete, new ideas. The discussion paper outlines a number of new initiatives that I think will serve to further the attainment of the principles I have just described.

At all times my overriding concern as Minister, and the concern of my Cabinet colleagues, has been, and will remain, maintaining public confidence in our financial system. A financial system that, despite problems from time to time, remains among the strongest in the world. Financial institutions have become more complex -- and the interrelationship among different kinds of financial institutions has increased. Our primary concern must be to earn and keep the confidence and the trust that depositors and borrowers have in the financial system of this country.

The proposals, therefore, address the need to control practices that damage public confidence. I refer to self-dealing, and abuses of conflicts of interest. Canadians need to be sure that the trust they place in our financial institutions is not abused. In my view, we need to make clear that there is no place for self-dealing in our financial system. Only such a principled, uncompromising stance will provide the assurances that are needed.

As well, the proposals explore ways to provide better protection to consumers who may feel they have suffered loss as a consequence of conflicts of interest. To make sure that anyone in that situation has a place to turn, I am proposing to create a Financial Conflicts of Interest Office. This office would be empowered to investigate complaints, make representations to the financial institutions and, if necessary, mount legal cases on behalf of complainants. I believe this mechanism will go far in providing the means to redress that Canadians need.

Our financial system is one in which all Canadians take justifiable pride. Lately, there have been some financial failures, financial reorganizations, and some support initiatives to sustain institutions with a liquidity or solvency problem. But when compared with the system in the United States or in other parts of the world, our system is solid and dependable.

But I stress to you that we must never take this dependability for granted. Your confidence -- the confidence of every Canadian -- is the cornerstone of our financial system.

But we must be frank about the realities of a free economy and a democratic society. No banking institution, no trust company, no insurance company can be totally insulated from, or isolated from, economic difficulties that can affect its loan portfolio, or its investments, or its overall capital base.

Government must be diligent. It must be cautious. And it must ensure that public confidence is always justified. It must use all the powers and authorities necessary to ensure that Canadian savers are not subjected to undue risk, and that proper standards of management and responsible decision-making remain at the core of our financial system.

Our discussion paper sets out proposals to ensure public confidence and I believe our proposals justify careful thought and review by all Canadians.

The paper also addresses the question of competition.

The more competition there is in the financial marketplace, the more small business, individual borrowers and savers, and the Canadian economy will benefit. The enhancement of competition is a principle to which I am strongly committed; it is also a principle this government holds as a signpost to prosperity.

However, the government must ensure competition is fair, and that the institutions who wish to compete have the capacity and, within reasonable limits, the regulatory freedom to do so.

The paper puts forward significant recommendations to promote competition and they, too, I believe are worthy of very careful review and reflection. There are a number of ways that we could approach this goal. The approach that I prefer is consistent with the overall goal of increasing the flexibility of institutional arrangements.

A key proposal is to allow the creation of financial holding companies that could combine non-bank financial institutions into a co-ordinated diversified financial services group. This concept will provide the institutional flexibility that I believe is called for in this era of rapid change. It will also provide an organizational principle for the financial services industry that facilitates proper regulation.

A second proposal, and one that is keyed by the financial holding company concept, is the Schedule C bank. Such a bank could be wholly-owned by a financial holding company -- and would have all the powers -- and be subject to the same regulations as Schedule A and B banks. This would provide financial holding companies with the means to become fully involved in commercial and personal lending, while maintaining a framework of regulations for these activities consistent with those for the banks.

A third part of the approach to provide more flexibility to institutions is the review of investment rules for financial institutions and pension funds. Institutions have suggested, and I agree, that regulatory scrutiny of each individual investment is not the best means to ensure safety. Instead, regulation should concentrate on an adequate degree of diversification. They feel that such an approach would give them greater flexibility in seeking the best return on their investments while at the same time placing the regulatory focus on the element that is most crucial to solvency and stability -- and that is diversification. We will be examining this approach in our public discussions.

These proposals taken as a whole would, I think, contribute to a more dynamic and flexible financial system with the separation of function maintained. That would be consistent with the principles of providing consumers better services, broadening the sources of financing available to our business sector, augmenting international competitiveness of our institutions, and fostering domestic economic growth.

Another principle to which I am committed and which is clearly enunciated in the discussion paper is that of harmonization of the federal and provincial policies regarding our financial institutions.

I intend to work especially hard to achieve this harmonization in co-operation with the provinces.

I am convinced that there is a way to build a harmonized regulatory framework covering both federally and provincially regulated institutions. This will mean hard work -- and co-operation -- and open-mindedness on all sides. This harmonization of rules will produce a general approach that is sensitive to regional interests and responsive to the national interest.

Our government believes that it is important to promote innovation. We know technology is changing rapidly, enabling financial institutions to expand their horizons and to offer us, the consumers, financial services packages that are more comprehensive and better tailored to our individual needs.

Networking is one example of an innovation that some institutions have proposed. Networking could, for example, facilitate one-stop shopping -- the repackaging of various financial services to suit small business, to suit the individual investor, and to suit the individual depositor or borrower. Such developments, which hold out the promise of benefits to consumers, will not take place unless we take an approach to regulation that permits innovation.

In our rapidly evolving financial environment, I believe this government's regulatory policy should avoid the imposition of a pre-conceived structure on the financial system. It is critical that we have regulation to ensure soundness and consumer protection. It is also critical that market forces be allowed to operate in order to shape the dynamic and efficient financial system that our economy needs. I feel that the proposals I have outlined today are consistent with these imperatives.

Knowing that Canadians are quite willing to voice their opinion, I am sure the discussion paper will stimulate a brisk and open debate involving Canadians from all walks of life. I am confident that this debate will be lively, and enlightening.

My colleagues in the government and I are approaching the issues with an open mind. We will be listening to the suggestions that are put forward and will give them full consideration.

The principles that I have laid out, the principles of consumer protection -- greater competitiveness -- innovation -- technological update -- federal/ provincial harmonization -- are important, not just to those of you who are financiers, but also to those of us who are consumers of financial services.

How to achieve these principles will emerge from the discussion process. That is the kind of open process that Canadians expect and deserve.

The financial services industry is an industry not like the others. It has a special responsibility to the country, and a special responsibility to the public. The government has a special responsibility to regulate it properly and judiciously.

Financial institutions have a responsibility to change, to accommodate new trends, to be sensitive to consumer and business interests, and at all times to protect the rights and the interests of the depositor and the borrower.

These principles are the focus of the paper. My government and I are committed to seeing that these principles are realized.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Released at 1300 hours EST

Ottawa, April 17, 1985

85-65

Notes for an address by
The Minister of State (Finance)
to the Toronto Society of Financial Analysts
Toronto
April 17, 1985

CHECK AGAINST DELIVERY

This is the third time that I have had the pleasure of addressing members and guests of the Toronto Society of Financial Analysts as the Minister of State for Finance. I am delighted to be here again, among friends, on what is for me a special occasion.

Earlier this week I released a discussion paper on the regulation of financial institutions. This paper has been the focal point of my work over the last several months. And the public discussions that I am now beginning will be preoccupying me in the months to come. I thank you for the opportunity to say a few words about this paper today.

Financial institutions have been in the public spotlight this year, both domestically and internationally.

At the federal level in Canada, we have had the Dimma Committee and the Wyman Committee examining issues. Provincially, we have the Ontario Securities Commission holding hearings on a number of subjects and the Dupré Committee releasing a report. Quebec is moving along on its financial legislation agenda, and Manitoba has announced its intentions, too. Internationally, we have had a White Paper in the U.K., new banking legislation in Germany, and a hotly debated move to deregulation in the U.S. Financial Institutions' issues are certainly featured prominently on the conference circuit.

When the Prime Minister appointed me to his Cabinet as Minister of State for Finance, I became responsible for policy for the financial sector. My government realized that, if we were to achieve our goals for economic renewal, the financial industry would have to play an important role. Consequently, the review of policy for this industry was made a priority as early on as the Throne Speech and the Agenda for Economic Renewal.

In examining the issues, I quickly realized there were two realities in the financial services industry with which we had to come to grips: change and consensus. Change that was dynamic and was reshaping the industry; and the consensus that was needed for a coherent and orderly public policy in this area.

I know that this audience fully appreciates the reality of change in the financial sector, both in Canada and abroad. When I was in the private sector, the changing environment was a major topic for discussion. And I have not left it behind.

The reasons for change are many.

Technology is evolving. This has enlarged the scope for the kinds of financial services packages that financial institutions can provide. It has also allowed new ways of delivering those services to the public.

Markets are shifting. For a number of demographic and economic reasons, we see consumer demand developing in new directions and institutions are seeking to stay where the action is.

Interest rates and asset values have been unstable. For financial institutions that specialized in long-term financial activity, or in particular areas such as real estate, this instability has spelled trouble. And they have become wary of narrow specialization.

Innovations are filtering in from abroad. Our own institutions that compete abroad are growing to stay abreast of the international competition. And domestic institutions are picking attractive ideas developed abroad and applying them within our own institutional and regulatory framework.

There have been many changes and they have often been substantial. They have induced a lot of institutional re-evaluation of market strategies. Needless to say, the future is no less opaque than it ever has been. Therefore, institutions have sought to position themselves to cope with future change.

Of course, when the financial system changes, the regulation of financial institutions must be reviewed. The review I am now conducting is marching to the drumbeat of change being sounded by the marketplace.

The important question for public policy is thus not whether to change, but in which direction to change. And this brings us to the second reality. There is no consensus on the direction of change.

It's understandable that the various institutional groups would not speak with one voice. They must consider the implication of regulatory change for their market shares. Their representations to government are shaped in part by that perspective. And that perspective differs from group to group.

But the lack of consensus runs deeper than that. For example, Canada's provincial governments have been grappling with policy problems within their own areas of jurisdiction. In some cases, the provincial governments have looked at the same problem and come up with different solutions.

We see the same thing internationally. The issues tend to be similar and we see many of the same kinds of responses by governments. Nevertheless, there are also lively debates on the appropriate course of policy, for example, in the U.S. with respect to moves towards deregulation.

That is why we had to set in motion a process that would bring people and ideas together.

To achieve consensus, we must be prepared to discuss. At the same time, it is clear to me that we have to go into the discussions with constructive new ideas and a firm sense of direction. Only by showing this kind of leadership will we be able to establish a forward-looking framework for the industry.

The discussion paper responds to that need as well. It sets out clearly the principles on which public policy must be based. And it presents important new initiatives that address the changing circumstances of the financial industry.

With the support of my Cabinet colleagues and the Prime Minister, I am now starting the task of reforming the legislation. To succeed, I will need your support -- your ideas -- your contribution to the debate.

I am open to discussion on the proposals and on the technical paper to be issued in the near future. In fact, I look forward to hearing many opinions -- by the end of July. I have set this deadline because of the need to focus

debate sooner -- not later. We want the Parliamentary committee to study the paper and report on it. And I intend to introduce legislation into Parliament as soon as possible after that.

Let's turn, now, to the principles of the paper. These are:

- to improve consumer protection
- to strictly control self-dealing
- to provide safeguards against abuses of conflicts of interest
- to promote competition, innovation and efficiency
- to enhance the convenience and options available to customers
- to broaden the sources of credit
- to ensure the soundness of institutions and the stability of the system
- to maintain our international competitiveness and foster domestic growth
- to promote harmonization of federal and provincial policy approaches

The details of this paper are negotiable; the principles are not. Whatever policy finally emerges following public discussion and parliamentary consideration -- and this will be an open process -- it must be consistent with these principles. On that we must be clear.

The real questions are on how best to implement these principles. The discussion paper outlines an approach that I feel will work. However, I am prepared to listen carefully to constructive suggestions and to give full consideration to alternative options that are put forward.

I think it is important that the public provide input into the development of the ideas presented in the discussion paper. The proposals in this paper form an integrated package that seeks to address consumer and business needs as well as providing an appropriate institutional framework for delivering the financial services that will fulfill those needs. We need to know what consumers need. We need to know what business needs. I am listening and I will be listening to all who come forward.

As I said, I felt that we, in our turn, had to provide Canadians with concrete, new ideas. The discussion paper outlines a number of new initiatives that I think will serve to further the attainment of the principles I have just described such as concern for solvency, self-dealing and conflicts of interest.

A key proposal outlined in the discussion paper is to allow the creation of financial holding companies that could combine non-bank financial institutions and a new category of banks into a co-ordinated diversified financial services group. This concept will provide the institutional flexibility that I believe is called for in this era of rapid change. It will also provide an organizational principle for the financial services industry that will facilitate effective regulation.

A second proposal, and one that is keyed by the financial holding company concept, is the Schedule C bank. Such a bank would be an affiliate of a financial holding company -- and would have all the powers -- and be subject to the same regulations as Schedule A and B banks. This would provide financial holding companies with the means to become fully involved in commercial and personal lending, while maintaining a consistent framework of regulations for these activities.

A third part of the approach to providing more flexibility to institutions is the review of investment rules for financial institutions and pension funds. One idea is that regulatory scrutiny of each individual investment be relaxed and that attention be placed on ensuring an appropriate degree of diversification. We feel that such an approach would give institutions greater flexibility in seeking the best return on their investments. At the same time it would place the regulatory focus on the element that is most crucial to solvency and stability -- and that is diversification. This could be a constructive and sensible approach and we will be examining it in the public discussions.

Our government also believes that it is important to promote innovation. We know technology is changing rapidly, enabling financial institutions to expand their horizons and to offer us, the consumers, financial services packages that are more comprehensive and better tailored to our individual needs.

Networking is another example of an innovative approach to providing financial services. For example, networking could facilitate the packaging of various financial services to suit small business, to suit the individual investor, and to suit the individual depositor or borrower. I think it is important for the regulatory process to leave open the door to innovation.

These proposals taken as a whole would, I think, contribute to a more dynamic and flexible financial system. Moving toward such a system would be consistent with the principles of providing consumers better services, broadening the sources of financing available to our business sector, augmenting international competitiveness of our institutions, and fostering domestic economic growth.

At the same time, the proposals address the all-important need to maintain the solvency of institutions and the stability of the financial system. These measures are, I believe, central to maintaining public confidence in the financial system. And public confidence, as I do not need to remind you, is the element that is most important to the ultimate efficiency of the financial system. The financial system could scarcely fulfill its role of channeling savings into investments if people feared to put their money into the institutions.

Our discussion paper sets out proposals to ensure public confidence and I believe that our proposals justify careful thought and review by all Canadians.

The Canadian public needs to be sure that the trust placed in our financial institutions is not abused. It is my view that we need to make clear that there is no place for self-dealing in our financial system. The existing rules against non-arm's-length lending in trust, mortgage loan and insurance legislation do not cover all types of situations or transactions. We propose to broaden this ban and apply it rigorously to all types of financial institutions. Only such a principled, uncompromising stance will provide the assurances that are needed.

With limited exceptions, we are proposing that a financial institution be prohibited from engaging in transactions with any person or group of associated persons that is able to control or influence that institution. The same prohibition would apply to transactions with the "significant business interests" of those able to control or influence the institution.

Our proposals do not place maximum limits on share ownership in non-bank financial institutions along the lines of the existing 10-per-cent limit on individual shareholdings in a chartered bank. We concluded that to apply such a rule to non-bank financial institutions would involve a retroactive restructuring of their ownership which would be disruptive and counter-productive. In the case of banks, the ownership limit has helped minimize possibilities of self-dealing. But strict controls on self-dealing can accomplish the same thing.

And ministerial approval would be required for transfers of significant blocks of shares of financial institutions. As well, the present rules limiting foreign ownership in financial institutions would be unchanged.

Supervisors will need the tools to do their job well. Financial practices have changed and I believe that supervisors' powers should reflect the current reality. Comprehensive proposals are made in the paper with regard to the functions of supervisory bodies. As their responsibilities now stand, the Office of the Inspector General of Banks supervises the banks while the Department of Insurance supervises the trust, mortgage loan and insurance companies and other federally-regulated financial institutions. We are proposing that the offices be amalgamated.

These proposals will form a key part of the overall approach to maintaining a sound, stable financial system in which Canadians can have full confidence.

The proposals also explore ways to provide better protection to consumers against abuses of conflicts of interest. The paper notes that in some situations of conflict of interest, market forces provide a deterrent to abuse where a reputable financial institution must choose between its own interests and those of its clients. We will also be seeking to ensure that Canadians have access to obtaining help where conflicts have occurred.

As a further measure to control conflicts, we have proposed that a clear separation be maintained between the fiduciary investment decisions made on behalf of trusts, and the company's other operations. This could be done by setting up internal arrangements and procedures, that have been dubbed a "Chinese Wall", to prevent the passage of confidential information between different divisions of a financial institution.

It is of paramount importance to me, and to this government, to work with provincial authorities to achieve an appropriate harmonization of our financial legislation. I will be consulting with my provincial colleagues over the coming months to work towards harmonization.

In addition to provincial/federal harmonization of regulations affecting financial institutions, we are proposing a chronological harmonization of financial institution legislation. This would involve regular review of the financial institutions legislation at the federal level. We would like to see all the acts reviewed at the same time every 10 years with the review triggered by a sunset clause in each of the acts.

After the important 1990 revisions to the Bank Act, we would want to see the decennial revision shifted to make it coincide with the decennial review of legislation of non-bank financial institutions.

Our financial system is one in which all Canadians take justifiable pride. Lately, there have been some financial failures, financial reorganizations, and some support initiatives to sustain institutions with a liquidity or solvency problem. But when compared to other countries' financial institutions, our system is solid and dependable.

This dependability cannot, of course, be taken for granted. Your confidence -- the confidence of every Canadian -- is the cornerstone of our financial system. The government has a special responsibility to regulate it properly and judiciously. It is critical that we have regulation to ensure soundness and consumer protection. It is also critical that market forces be allowed to operate in order to shape the dynamic and efficient financial system that our economy needs. I feel that the proposals I have outlined today are consistent with these imperatives.

The principles for regulatory change we have laid out are clear and precise.

These principles are the basis for consistent and sensible ground rules for our financial institutions. The proposals outlined in the discussion paper further the attainment of those objectives. Of course, the best ways to achieve these

principles will be determined by all of us in this room -- across the country, in provincial governments, and in the Parliament of Canada, through the discussion process that is now starting.

I am optimistic about this process because I believe in the financial services industry and its importance to Canada. It is at the core of our country's economic soul. I am hopeful that during the process of debate and discussion, the new ideas and new suggestions which our paper seeks to initiate will evoke from all Canadians thoughtful consideration of the options at hand and the issues on the table.

My colleagues in the government and I are approaching the issues with an open mind. We will be listening to the suggestions that are put forward and will given them full consideration. As far as the principles are concerned -- the principles of consumer protection -- greater competitiveness -- innovation -- technological update -- federal/provincial harmonization -- they form a comprehensive and integrated package. The package is important not just to financiers, but also to the consumers of financial services.

How to achieve these principles will emerge from the discussion process. That is the kind of open process that Canadians expect and deserve.

Canadians want -- and are quite willing -- to voice their opinion. I am confident the discussion paper will stimulate a comprehensive and open debate involving Canadians from all walks of life. I am sure that this debate will be enlightening.

There is a lot at stake. We must do it right. We must do it carefully. We must do it incrementally. And we must have the courage to do it well.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, April 18, 1985

85-67

AMENDMENTS TO THE DEFINITIONS OF OIL OR GAS WELL AND CANADIAN EXPLORATION EXPENSE

The Honourable Michael Wilson, Minister of Finance, today released a draft of proposed amendments to Part I of the Income Tax Act designed to accommodate new technology in the oil and gas sectors.

Under the expanded definition of Canadian exploration expense, expenses incurred for the purpose of bringing an accumulation of petroleum or natural gas into production by a means other than an oil or gas well -- for example by "a gravity-assisted drainage system" -- and incurred prior to the start of commercial production will qualify as a Canadian exploration expense. Thus outlays under this new oil recovery technology would be eligible for the 100-per-cent write-off available for such expenses. A consequential change would remove from the definition of an oil or gas well any well drilled from below the surface of the earth.

These changes will apply to expenses incurred after March 31, 1985.

For further information contact:

Derek Williams
Tax Policy - Legislation
(613) 992-4984

DRAFT LEGISLATION

(1) Paragraph 66(15)(g.1) of the said Act is repealed and the following substituted therefor:

"(g.1) "oil or gas well" means any well (other than an exploratory probe) drilled from the surface of the earth for the purpose of producing petroleum or natural gas or of determining the existence, location, extent or quality of an accumulation of petroleum or natural gas."

(2) Paragraph 66.1(6)(a) is amended by adding thereto the following subparagraph:

"(i.1) any expense (other than an expense incurred in drilling or completing an oil or gas well or in building a temporary access road to, or preparing a site in respect of, any such well) incurred by him for the purpose of bringing an accumulation of petroleum or natural gas (other than a mineral resource) in Canada into production and incurred prior to the commencement of the production in reasonable commercial quantities (other than the production from an oil and gas well) from such accumulation, including:

(A) clearing, removing overburden and stripping, and

(B) sinking a shaft, constructing or drilling an adit or other underground entry;"

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, April 18, 1985
85-68

MINISTER TABLES 1984 REPORT OF CANADIAN IMPORT TRIBUNAL

The Honourable Barbara McDougall, Minister of State for Finance, today tabled in the House of Commons the 1984 Annual Report of the Canadian Import Tribunal.

The Canadian Import Tribunal came into existence in December 1984 with the proclamation of the Special Import Measures Act. The Tribunal replaced the former Anti-Dumping Tribunal which was regulated by the Anti-dumping Act of 1969.

The Minister noted that the recently-proclaimed Act is intended to modernize and streamline Canada's anti-dumping and countervailing procedures within the context of Canada's international obligations. The main objective of the Act is to make Canada's contingency protection system more effective in preventing injury to Canadian producers from dumped or subsidized imports, while at the same time providing for more transparent, equitable and speedy procedures.

Because the Act was only proclaimed in late 1984, much of the Report relates to activities carried out by the former Anti-dumping Tribunal. The Report contains a complete listing of all findings issued since 1969, when the former Anti-dumping Act came into force, and a listing of all findings of material injury which were still in effect as of December 31, 1984. Also provided in the Report is a useful breakdown of the activities that the Tribunal performs in fulfilling its mandate.

.../2

The Report further explains the transitional provisions of the Special Import Measures Act as they relate to findings issued pursuant to the repealed legislation. All orders or findings of material injury made pursuant to the former Anti-dumping Act and which were still in effect on December 1, 1984, are deemed to have been made on the date of proclamation of the Special Import Measures Act. Such findings may continue in effect for five years unless reviewed and rescinded by the Tribunal at an earlier date. A review by the Tribunal is also necessary for findings to be extended beyond five years.

Presently, some 66 findings made under the Anti-dumping Act remain in force under the current Act.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, May 9, 1985
85-77

TECHNICAL INCOME TAX AMENDMENTS PROPOSED

The Honourable Michael Wilson, Minister of Finance, today tabled draft income tax legislation in the form of a comprehensive Notice of Ways and Means Motion. The Motion contains numerous technical proposals designed to correct various technical deficiencies in the Income Tax Act and respond to submissions from taxpayers and tax professionals for improvements to the Act.

The amendments do not represent new policy initiatives. Most are of a simplifying or relieving nature. A schedule of changes to the French version of the Act completes the draft legislation. Many of the changes would clarify the meaning of provisions in the Act, correct certain inaccuracies and make the terminology consistent.

Mr. Wilson said the draft legislation is being tabled at this time in order to separate these technical tax amendments from the budget proposals that represent policy initiatives of the government.

To assist in a full understanding of the proposed changes, the Minister also released technical notes which explain the amendments. He invited comments on the draft amendments from Members of Parliament, taxpayers affected and other interested members of the public, and indicated he intends to reintroduce the proposals for Parliamentary adoption after a reasonable period for public study. Comments on proposed changes may be directed to:

Department of Finance,
Tax Policy-Legislation Division,
160 Elgin Street,
Ottawa, Ontario
K1A 0G5

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Embargoed FN 20 -C55

Ottawa, May 23, 1985
85-80

BUDGET PROPOSES LIFETIME $500,000 CAPITAL GAINS EXEMPTION

In a major initiative to encourage investment by individual Canadians in small and medium-sized businesses, the Honourable Michael Wilson, Minister of Finance, proposed in his budget today a tax exemption for capital gains up to a lifetime limit of $500,000. This will contribute significantly to the creation of new job opportunities in the private sector.

Mr. Wilson, in making the announcement in the budget, said: "This is a measure designed to unleash the full entrepreneurial dynamism of individual Canadians."

Mr. Wilson emphasized that the measure is designed to assist smaller businesses in raising capital to expand and create jobs. The $500,000 capital gains exemption will also provide greater rewards to all Canadians willing to invest their savings in Canada's future.

The exemption will apply to gains realized after 1984. Since only half of capital gains are now included in income for tax purposes, the lifetime exemption will effectively remove the tax on $250,000 of taxable capital gains.

The exemption will be phased in over six years, with a cumulative limit of $10,000 of net taxable capital gains in 1985, $25,000 in 1986, $50,000 in 1987, $100,000 in 1988, $150,000 in 1989 and $250,000 in 1990 and subsequent years. For net taxable capital gains on the sale of qualifying farm property, the full $250,000 exemption will be available immediately.

.../2

The present unlimited exemption for capital gains on the sale of a taxpayer's principal residence will not reduce an individual's entitlement to the new lifetime exemption.

Mr. Wilson emphasized that the exemption will attract new equity investment to large and small businesses and improve the financial health of Canadian companies. For example, it will make it easier for high technology companies, especially small start-up firms, to raise capital.

The exemption will apply to an individual's net taxable capital gain -- that is, taxable capital gains less any allowable capital losses. Individuals will be required to maintain an account of their exempt net gains to compute the cumulative deduction available to them.

The exemption will not apply to stock dividends or to employee stock options. One-half of Canada Savings Bond cash bonus payments received after May 23, 1985, will be included in income for tax purposes. With the introduction of the new exemption, ordinary capital losses will no longer be deductible against up to $2,000 of other income in a year. Other consequential changes include:

- repeal of the Indexed Security Investment Plan;

- the special provision for tax-free transfer of farm capital gains to an RRSP will be replaced by the capital gains exemption;

- the limited inter-generational deferral on gains on small business shares will be replaced by the capital gains exemption;

- changes to the anti-avoidance rules that prevent conversion of dividend income into capital gains.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Embargoed

Ottawa, 23 May, 1985
85-81

LOW-INCOME FAMILIES TO BENEFIT FROM ADJUSTMENTS IN CHILD BENEFITS

To increase support for low-income families, a restructuring of benefits provided to families with children was proposed today in the budget presented by the Honourable Michael Wilson, Minister of Finance. The changes, delivered through family allowances and the tax system, will be phased in beginning in 1986.

"When resources are increasingly limited, we must adjust social programs so that benefits are targetted to those most in need and funds are freed for other social priorities," Mr. Wilson said.

The main aspects of the adjustments:

- The child tax credit, paid to low- and middle-income families, will be increased in three steps. In the 1986 taxation year, the credit (which is payable in the spring of 1987) will be increased by $70 per child from $384 to $454. The credit will be increased by a further $35 per year in each of taxation years 1987 and 1988, to $489 and $524 respectively. Starting in 1989 the credit will be indexed to the amount of annual CPI increase that exceeds 3 per cent.

- Starting in 1986, the family income level above which the child tax credit is reduced will be $23,500, compared with the present $26,330 threshold, and this new threshold will be indexed in future years by the amount that the annual CPI increase exceeds 3 per cent. The child tax credit will continue to be phased out at the rate of $5 for every $100 of net family income above the threshold.

- Family allowances will remain universally available. Starting in January 1986 the payments, currently $31.27 per child per month, will be indexed only for the amount of annual increase in the consumer price index (CPI) that exceeds 3 per cent.

.../2

- The exemption for dependent children provided in the personal income tax, now $710 per child, will be reduced in three annual steps starting in 1987 until it equals the value of family allowances. Thereafter the child tax exemption will remain equal to family allowances.

- The exemption for children 18 and over will be reduced progressively in line with the exemption for those under 18. However, it will not be reduced for dependents who are mentally or physically infirm.

The Minister emphasized that the changes will make child benefits fairer and will provide increased benefits to those most in need. For example, by the end of the phase-in period, one-earner couples with two children whose income is below approximately $28,000 will have seen their benefits substantially increased. The following table illustrates the effect of the changes.

Net Annual Child Benefits(1) for One-Earner Families with Two Children Under Age 18 Residing in Ontario, Selected Income Levels, 1985 to 1989

	Existing	Proposed			
Family earnings	1985	1986	1987	1988	1989
			(dollars)		
0	1,484	1,524	1,670	1,740	1,812
10,000	1,484	1,561	1,681	1,745	1,812
20,000	1,673	1,711	1,771	1,790	1,812
30,000	1,621	1,661	1,564	1,584	1,597
40,000	1,177	1,217	1,104	1,114	1,117
50,000	1,048	1,051	921	841	764
60,000	1,048	1,051	921	841	764

(1) Includes family allowances, child tax credit and child tax exemption. The credit appears in the year in which it is received.
Benefits are shown in dollars of the year in which they are paid.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Embargoed

Ottawa, May 23, 1985
85-82

BUDGET PROMOTES R&D INVESTMENT

A series of changes to improve the climate for investment in research and development were proposed by the Honourable Michael Wilson, Minister of Finance, in his budget today.

One major impact will come from the lifetime exemption for individuals from tax on up to $500,000 in capital gains. The Minister noted that this will encourage Canadians to invest in Canadian companies, especially small start-up firms, and help growing companies attract new equity.

A number of other measures in the budget recognize the importance of R&D to Canada's growth and competitiveness:

- The 35-per-cent tax credit earned by small firms for current R&D expenditures after May 23, 1985 will be fully refundable. Since the credit applies on the first $2 million of R&D performed, the credit could be worth a maximum of $700,000 each year. The refund of unused credits will provide the greatest benefit to small start-up R&D firms who are often initially in a non-taxpaying position and thus would not be able to use the credit immediately as a tax offset.

- The definition of expenditures qualifying for R&D tax incentives will be changed to cover expenditures "all or substantially all" of which are attributable to R&D. Current expenditures that are "directly attributable" to R&D will also now qualify for the incentives.

.../2

This will be of particular benefit to small businesses where the owner-manager is often involved in the R&D process. The present rule is that expenditures must be wholly attributable to R&D.

- Revenue Canada staff will be augmented to ensure prompt refunds of R&D tax credit claims, and provide technical experts to help in determining what expenditures qualify for the credit and other R&D incentives.

Given the introduction of these new measures, the budget proposes to eliminate the flow-out of the scientific research tax credit (SRTC) to investors, effective immediately. The SRTC provided a mechanism whereby R&D firms could transfer their unused tax incentives to outside investors, and its termination will not affect the ability of firms to earn R&D credits and deductions.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Embargoed

Ottawa, 23 May, 1985
85-83

NEW APPROACH TO CORPORATE TAX SYSTEM FOR PUBLIC STUDY

The Honourable Michael Wilson, Minister of Finance, opened the way in his budget speech today to a broad public discussion of how the corporate income tax system can best support economic growth and job creation. To illustrate what could be done, he set out one possible approach -- the removal of some special tax incentives to finance a substantial reduction in tax rates for all corporations.

The new approach is described in a discussion paper, "The Corporate Income Tax System: A Direction for Change", tabled with the budget.

The illustrative option in the paper has, as its cornerstone, a reduction in the basic federal rate of corporate tax from 36 to 29 per cent, and in the rate for small businesses from 15 to 11 per cent. Special low tax rates on income from manufacturing and processing would remain.

The revenue impact of the lower tax rates would be offset by reductions in two tax incentives favouring particular kinds of investment. In place of the accelerated capital cost allowances (CCA) which permit fast write-offs for new investments in manufacturing and processing assets and certain other equipment, the CCA on these assets would be brought more in line with the treatment of other depreciable assets. The second incentive -- the investment tax credit -- would be eliminated except for the credit for scientific research outlays.

.../2

This suggested approach would raise the same amount of tax revenues. It would provide a different kind of incentive for investment: rewarding success through lower tax rates, instead of providing special tax provisions for particular activities.

Mr. Wilson made it clear that the suggested changes represent merely one option for improving the current corporate tax structure. He invited a broad public study of this and other ways to make the tax system more effective, and said that no comprehensive changes will be introduced without full public discussion.

Among the results of the suggested approach:

- With lower tax rates, successful businesses could retain more of their profits for reinvestment.

- Businesses and investors could plan on the basis of good business sense rather than the best tax advantage, and thus market forces would be given more weight in allocating investments in the most productive, job-creating way.

- Corporate tax burdens would be spread more evenly and fairly among corporations. Profitable firms now paying no taxes because of up-front incentives on investments would start to pay taxes.

The paper noted that a large build-up of unused tax deductions and tax credits on the books of corporations was one of the main reasons for the government decision last fall to cease issuing advance tax rulings on limited partnership arrangements. The government remains concerned about the possibilities for tax-shelter financing through such arrangements, and therefore the suspension of advance rulings will continue, pending a study of the possibility of providing for explicit rules in this area.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Embargoed

Ottawa, 23 May, 1985
85-84

CORPORATE LOSS TRANSFER SYSTEM OUTLINED FOR PUBLIC DISCUSSION

The Honourable Michael Wilson, Minister of Finance, today tabled with his budget a discussion paper outlining possible new rules whereby a corporation's operating loss could be transferred, for tax purposes, to other corporations within a commonly-owned group.

The paper, "A Corporate Loss Transfer System for Canada", is one result of a broad and ongoing study of ways to remove barriers to private sector activity and reduce complexity in tax laws and business operations.

Mr. Wilson invited wide public discussion of the paper, which includes draft legislation to permit study of its specific proposals. Because of the complex issues raised by the proposal, extensive consultations with the provinces and industry are required.

The Canadian tax system now taxes each corporation as a separate entity, with no general mechanism whereby taxable income of one or more corporations within a commonly-owned group can be reduced by losses incurred elsewhere within the group.

The discussion paper proposes that such a mechanism be allowed for corporate groups consisting of a parent taxable Canadian corporation and subsidiaries that meet the test of having at least 95 per cent common ownership.

...2/

Member corporations using the provision would have to make annual joint elections in their tax returns. Only a corporation's non-capital loss for the current year could be transferred. The amount being transferred would be allocated to one or more other specified corporations within the group and applied as deductions from their taxable income. Certain kinds of corporations would not be allowed to use the provision, because of the nature of their business.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Embargoed

Ottawa, 23 May, 1985
85-85

REFORMS PROPOSED FOR THE BUDGET PROCESS

The Honourable Michael Wilson, Minister of Finance, today tabled with the budget a discussion paper proposing significant reforms to the budget-making process.

Among the proposals outlined in The Canadian Budgetary Process: Proposals for Improvement are a fixed time of year for the presentation of the annual budget, a process for obtaining borrowing authority approval before a fiscal year begins, and legislative authority for the provisional collection of taxes before parliamentary enactment of tax changes. These, and other proposals in the discussion paper, would together impose a more disciplined and effective system for developing and implementing budget measures.

A fixed annual time for the budget "would provide greater certainty for planning and decision-making for Parliament, for the federal government, for provincial governments and for the private sector," Mr. Wilson said. "It would provide the opportunity for more complementary economic and fiscal policy-making by governments."

The paper suggests that the optimum timing for an annual budget would be the winter period between mid-January and mid-February.

Under another proposal, borrowing authority needs for a fiscal year would be obtained in conjunction with the annual winter budget. This would help to avoid costly delays in enacting borrowing bills.

...2/

Mr. Wilson invited public comment and reaction to the document, and proposed that it be referred to the House Standing Committee on Procedures and Organization and to the Senate Committee on Standing Rules and Orders.

Mr. Wilson said that the discussion paper would "advance the process of review, discussion and, eventually, reform in a number of specific areas of the budgetary process where improvement appears to be necessary and possible."

M. Wilson a invité le public à faire connaître sa réaction et ses observations sur le document, et a proposé que ce dernier soit déféré au comité permanent de la Chambre chargé de la procédure et de l'organisation ainsi qu'au Comité sénatorial des règlements permanents.

M. Wilson a déclaré que le document d'étude ferait progresser le processus d'examen, de discussion et, finalement, de réforme dans un certain nombre de domaines précis du processus budgétaire où des améliorations paraissent nécessaires et possibles.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

En embargo

Ottawa, le 23 mai 1985
85-85

RÉFORME PROPOSÉE DU PROCESSUS BUDGÉTAIRE

Le ministre des Finances, l'honorable Michael Wilson, a déposé aujourd'hui avec le budget un document d'étude qui propose d'importantes réformes du processus budgétaire.

Parmi les propositions décrites dans Le processus budgétaire canadien: propositions d'amélioration, on note une période fixe de présentation du budget chaque année, un mécanisme d'octroi des pouvoirs d'emprunt avant le début de l'exercice et l'autorisation légale de percevoir par anticipation les impôts et taxes proposés avant leur adoption par le Parlement. Ces propositions, ainsi que d'autres aspects du document d'étude, instaureraient un système plus efficace et plus discipliné d'élaboration et d'exécution des mesures budgétaires.

Une date fixe de présentation du budget «permettrait au Parlement, au gouvernement fédéral, aux provinces et au secteur privé d'établir leurs plans et de prendre leurs décisions dans un cadre plus certain», a déclaré M. Wilson. «Cela donnerait aux divers gouvernements la possibilité d'adopter des mesures fiscales et économiques plus complémentaires.»

Selon le document, la période optimale de présentation du budget annuel se situerait en hiver, entre la mi-janvier et la mi-février.

D'après une autre proposition, le pouvoir d'emprunter pour un exercice serait obtenu à l'occasion de la présentation du budget annuel, en hiver. Cela contribuerait à éviter des retards coûteux dans l'adoption des projets de loi d'emprunt.

.../2

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Les sociétés membres d'un groupe qui voudraient utiliser ce mécanisme devraient produire chaque année un choix conjoint dans leurs déclarations d'impôt. Seules les pertes autres qu'en capital d'une société pour l'exercice courant pourraient être transférées. Les sommes ainsi transférées seraient attribuées à une ou plusieurs autres sociétés spécifiées du groupe, qui pourraient les déduire de leur revenu imposable. Certaines catégories de sociétés ne seraient pas admissibles à ce mécanisme en raison de la nature de leurs activités.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

En embargo

Ottawa, le 23 mai 1985
85-84

UN SYSTÈME DE TRANSFERT DE PERTES INTERSOCIÉTÉ EST SOUMIS À L'EXAMEN PUBLIC

Le ministre des Finances, l'honorable Michael Wilson, a déposé aujourd'hui avec son budget un document d'étude proposant de nouvelles règles qui permettraient à une société faisant partie d'un groupe de transférer ses pertes d'exploitation aux autres compagnies membres du groupe.

Le document intitulé Un système de transfert de pertes intersociété au Canada est l'un des résultats d'une étude globale et permanente des moyens qui permettraient d'éliminer les obstacles à l'activité du secteur privé et de simplifier les dispositions fiscales et les opérations commerciales.

M. Wilson a invité les intéressés à un large débat public sur ce document, qui comprend un avant-projet de législation pour permettre d'en étudier les propositions particulières. En raison des questions complexes que soulève le système proposé, des consultations approfondies doivent être menées avec les provinces et l'industrie.

Dans le régime fiscal actuel, chaque société est considérée comme une entité distincte et il n'existe aucun mécanisme général par lequel le revenu imposable d'une ou de plusieurs sociétés faisant partie d'un groupe pourrait être diminué des pertes subies par d'autres membres du groupe.

Le document d'étude propose un mécanisme de ce genre pour les groupes qui se composent d'une société-mère canadienne imposable et de filiales appartenant à au moins 95 pour cent à des intérêts communs.

.../2

La méthode proposée ne modifierait pas les recettes fiscales. Elle encouragerait l'investissement d'une manière différente: le régime fiscal récompenserait le succès, grâce à des taux d'imposition moins élevés, au lieu d'accorder des encouragements spéciaux à certaines activités.

M. Wilson a précisé que les changements proposés ne constituent qu'une des façons possibles d'améliorer le régime fiscal actuel des sociétés. Il a invité tous les intéressés à un large examen de cette nouvelle approche et des autres moyens qui permettraient de rendre le régime fiscal des sociétés plus efficace, déclarant qu'aucun changement important ne serait instauré sans un débat public approfondi.

L'approche proposée aurait notamment les résultats suivants:

- L'abaissement des taux d'imposition permettrait aux entreprises rentables de conserver une plus forte proportion de leurs bénéfices pour les réinvestir.

- Les entreprises et les investisseurs planifieraient leurs décisions à la lumière de saines considérations commerciales plutôt que des avantages fiscaux, ce qui laisserait les forces du marché orienter davantage l'allocation des investissements dans les secteurs les plus productifs et créateurs d'emploi.

- Le fardeau fiscal des sociétés serait réparti de manière plus égale et plus équitable entre les entreprises. Les sociétés rentables qui ne versent actuellement aucun impôt grâce aux encouragements initiaux à l'investissement commenceraient à en payer.

Le document révèle que la forte accumulation des déductions fiscales et des crédits d'impôt inutilisés dans les livres des sociétés était l'une des principales raisons de la décision prise par le gouvernement l'automne dernier de ne plus faire connaître à l'avance sa position sur les mécanismes de société en commandite. Comme le gouvernement est encore préoccupé par les possibilités de financement exonéré d'impôt que présentent ces mécanismes, il maintient cette suspension en attendant que la possibilité d'établir des règles explicites dans ce domaine ait été étudiée.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

En embargo

Ottawa, le 23 mai 1985
85-83

UNE NOUVELLE APPROCHE DU RÉGIME FISCAL DES SOCIÉTÉS EST SOUMISE À UN EXAMEN PUBLIC

Le ministre des Finances, l'honorable Michael Wilson, a lancé aujourd'hui dans son exposé budgétaire une invitation à un vaste débat public sur les meilleurs moyens de s'assurer que le régime fiscal des sociétés soutient la croissance économique et la création d'emplois. Pour illustrer ce qui peut se faire dans ce domaine, il a présenté une nouvelle approche possible, consistant en l'élimination de certains encouragements fiscaux spéciaux afin de financer un abaissement appréciable des taux d'imposition pour l'ensemble des sociétés.

Cette nouvelle approche est décrite dans un document d'étude intitulé Le régime fiscal des sociétés: Un axe de changement, déposé avec le budget.

L'option présentée à titre d'illustration dans le document repose principalement sur un abaissement du taux de base de l'impôt fédéral des sociétés, qui passerait de 36 à 29 pour cent, tandis qu'il serait ramené de 15 à 11 pour cent pour les petites entreprises. Les taux réduits d'imposition des bénéfices de fabrication et de transformation seraient maintenus.

L'effet d'un abaissement des taux d'imposition sur les recettes serait compensé par la modification de deux dispositions fiscales qui avantagent des formes particulières d'investissement. La déduction pour amortissement, qui est permise à un taux accéléré sur les biens de fabrication et de transformation ainsi que certains autres éléments d'actif, serait ramenée à un niveau plus comparable au taux d'amortissement des autres biens amortissables. La seconde disposition -- le crédit d'impôt à l'investissement -- serait éliminée sauf pour les dépenses de recherche scientifique.

.../2

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Cela bénéficiera tout particulièrement aux petites entreprises où le propriétaire-dirigeant participe souvent aux activités de R&D. D'après les règles actuelles, il faut que les dépenses soient entièrement imputables à la R&D.

- Revenu Canada se dotera des effectifs nécessaires pour assurer un remboursement rapide des crédits d'impôt à la R&D et fera appel à des experts techniques pour déterminer les dépenses qui ouvrent droit au crédit et aux autres encouragements à la R&D.

Étant donné l'instauration de ces nouvelles mesures, le budget propose d'éliminer immédiatement le transfert du crédit d'impôt à la recherche scientifique (CIRS) aux investisseurs. Le CIRS permettait aux entreprises de R&D de transférer à des investisseurs extérieurs leurs encouragements fiscaux inutilisés; son élimination ne réduira en rien la capacité des entreprises d'acquérir des crédits et des droits à déduction au titre de la R&D.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

En embargo

Ottawa, le 23 mai 1985
85-82

LE BUDGET FAVORISE LES INVESTISSEMENTS EN R&D

Une série de changements visant à améliorer le climat des investissements en recherche et développement a été proposée aujourd'hui par le ministre des Finances, l'honorable Michael Wilson, dans son budget.

L'un des principaux changements est l'exemption à vie accordée aux particuliers sur $500,000 de gains en capital. Le ministre a indiqué que cela encouragerait les Canadiens à investir dans des compagnies canadiennes, et en particulier les petites entreprises qui démarrent, et aiderait les sociétés en expansion à obtenir de nouveaux capitaux.

Plusieurs autres mesures proposées dans le budget reconnaissent l'importance de la R&D pour la croissance et la compétitivité du Canada:

- le crédit d'impôt de 35 pour cent acquis par les petites entreprises au titre des dépenses courantes de R&D après le 23 mai 1985 sera entièrement remboursable. Comme ce crédit s'applique aux premiers $2 millions de R&D effectués, le crédit pourra atteindre une valeur de $700,000 par an. Le remboursement des crédits inutilisés bénéficiera surtout aux petites entreprises de R&D qui, à leurs débuts, ont souvent des bénéfices insuffisants pour payer des impôts et ne sont donc pas en mesure de déduire immédiatement le crédit.

- La définition des dépenses admissibles aux encouragements fiscaux à la R&D sera modifiée afin de comprendre les dépenses imputables «en totalité ou presque» à la R&D. Les dépenses courantes qui sont «directement imputables» à la R&D deviennent également admissibles.

.../2

- Les allocations familiales garderont leur caractère universel. À partir de janvier 1986, les paiements, qui sont actuellement de $31.27 par enfant et par mois, seront indexés uniquement sur la hausse annuelle de l'IPC qui dépasse 3 pour cent.
- L'exemption fiscale au titre des enfants à charge, qui est actuellement de $710 par enfant, diminuera en trois étapes annuelles à partir de 1987 jusqu'au moment où elle sera égale aux allocations familiales. Cette exemption restera ensuite équivalente aux allocations familiales.
- L'exemption fiscale au titre des enfants de 18 ans ou plus diminuera progressivement sur le même échelonnage que celle au titre des enfants de moins de 18 ans. Cependant, cette réduction ne s'appliquera pas aux personnes à charge souffrant d'une infirmité mentale ou physique.

Le ministre a souligné que ces changements rendraient plus équitables les prestations au titre des enfants et accroîtraient l'aide aux familles qui en ont le plus besoin. Par exemple, à la fin de la période d'instauration de ces mesures, les couples à revenu unique ayant deux enfants et qui gagnent moins de $28,000 environ verront leurs prestations augmenter de manière appréciable. Le tableau qui suit illustre l'effet des changements.

Prestations annuelles nettes au titre des enfants(1), famille de l'Ontario à revenu unique et deux enfants de moins de 18 ans, à certains niveaux de revenu, 1985 à 1989

Revenu familial	Prestations actuelles 1985	Prestations proposées 1986	1987	1988	1989
		(en dollars)			
0	1,484	1,524	1,670	1,740	1,812
10,000	1,484	1,561	1,681	1,745	1,812
20,000	1,673	1,711	1,771	1,790	1,812
30,000	1,621	1,661	1,564	1,584	1,597
40,000	1,177	1,217	1,104	1,114	1,117
50,000	1,048	1,051	921	841	764
60,000	1,048	1,051	921	841	764

(1) Allocations familiales, crédit d'impôt pour enfants et exemption fiscale au titre des enfants. Le crédit apparaît l'année où il est reçu. Les prestations sont indiquées en dollars de l'année où elles sont versées.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

En embargo

Ottawa, le 23 mai 1985
85-81

UN RAJUSTEMENT DES PRESTATIONS POUR ENFANTS QUI AVANTAGE LES FAMILLES À REVENU MODESTE

Pour accroître l'aide aux familles à revenu modeste, une restructuration des prestations au titre des enfants à charge a été proposée aujourd'hui dans le budget par le ministre des Finances, l'honorable Michael Wilson. Ces changements, qui portent sur les allocations familiales et le régime fiscal, entreront en vigueur à partir de 1986.

«Lorsque les ressources sont de plus en plus limitées, il faut également rajuster les programmes sociaux de manière qu'ils bénéficient principalement à ceux qui en ont le plus besoin et que des fonds puissent être libérés pour d'autres priorités sociales», a déclaré M. Wilson.

Voici les principaux aspects de ces rajustements:

- Le crédit d'impôt pour enfants versé aux familles à revenu modeste et moyen sera augmenté en trois étapes. Le crédit de l'année d'imposition 1986 (payable au printemps de 1987) augmentera de $70 par enfant, pour passer de $384 à $454. Il augmentera d'encore $35 par année en 1987 et 1988, passant à $489 et à $524 respectivement. À partir de 1989, le crédit sera indexé sur la hausse annuelle de l'IPC qui dépasse 3 pour cent.
- À compter de 1986, le revenu familial au-dessus duquel le crédit d'impôt pour enfants commence à diminuer sera de $23,500, contre $26,330 actuellement; ce nouveau seuil sera indexé sur la hausse annuelle de l'IPC qui dépasse 3 pour cent. Le crédit continuera de diminuer de $5 par $100 de revenu familial net au-dessus du seuil.

.../2

Canada

Ottawa, Canada K1A 0G5
613 992-1573

L'exonération totale dont bénéficient actuellement les gains en capital sur les résidences principales ne réduira pas cette nouvelle exemption.

M. Wilson a souligné que cette exemption permettrait aux petites et grandes entreprises d'attirer de nouveaux capitaux et améliorerait la situation financière des sociétés canadiennes. Par exemple, elle permettra aux industries de pointe, et notamment aux petites entreprises qui démarrent, d'obtenir plus aisément du financement.

L'exemption s'appliquera aux gains en capital imposables nets, c'est-à-dire aux gains imposables diminués des pertes en capital déductibles. Les particuliers devront tenir un relevé de leurs gains nets exonérés pour calculer leurs droits de déduction.

L'exemption ne s'appliquera ni aux dividendes-actions ni aux options d'achat d'actions des employés. La moitié des bonis payables au comptant reçus après le 23 mai 1985 sur les Obligations d'épargne du Canada sera incluse dans le revenu imposable. Étant donné cette nouvelle exemption, les pertes en capital ordinaires ne seront plus déductibles des autres revenus à concurrence de $2,000 dans l'année. Les autres changements corrélatifs comprennent:

- l'abrogation du Régime de placements en titres indexés;
- le remplacement par la nouvelle exemption de la disposition spéciale permettant de transférer en franchise d'impôt des gains en capital agricoles à un REER;
- le remplacement par la nouvelle exemption du report limité entre générations des gains sur les actions de petites entreprises;
- des changements des règles anti-échappatoires visant à éviter la conversion des revenus de dividendes en gains en capital.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

En embargo

Ottawa, le 23 mai 1985
85-80

LE BUDGET PROPOSE UNE EXEMPTION À VIE DE $500,000 SUR LES GAINS EN CAPITAL

Prenant une importante initiative pour encourager les Canadiens à investir dans les petites et moyennes entreprises, le ministre des Finances, l'honorable Michael Wilson, a proposé aujourd'hui dans son budget que les gains en capital soient exonérés d'impôt à concurrence de $500,000 sur la durée de vie du contribuable. Cette mesure constituera un apport appréciable à la création de nouvelles possibilités d'emploi dans le secteur privé.

En annonçant cette proposition, le ministre a déclaré dans son budget qu'elle visait à «donner libre cours à l'esprit d'entreprise et au dynamisme des Canadiens».

M. Wilson a souligné que cette mesure visait à aider les petites entreprises à se procurer les capitaux nécessaires à l'expansion et à la création d'emplois. Cette exemption de $500,000 des gains en capital permettra également à tous les Canadiens désireux d'investir leur épargne dans l'avenir du Canada de profiter davantage des fruits de cet investissement.

L'exemption s'appliquera aux gains réalisés après 1984. Étant donné que la moitié seulement des gains en capital est actuellement incluse dans le revenu imposable, cette exemption éliminera en fait l'impôt sur $250,000 de gains en capital imposables.

L'exemption sera mise en place sur six ans, le plafond cumulatif de gains en capital imposables nets étant fixé à $10,000 en 1985, $25,000 en 1986, $50,000 en 1987, $100,000 en 1988, $150,000 en 1989 et $250,000 à partir de 1990. Dans le cas des gains en capital imposables nets réalisés à la vente de biens agricoles admissibles, l'exemption totale de $250,000 sera disponible immédiatement.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Release at 1930 hours EDT

Ottawa, May 27, 1985

85-87

Notes for an address
by the Honourable Barbara McDougall
Minister of State (Finance)
to the Canadian Life and Health Insurance Association
Ottawa
May 27, 1985

CHECK AGAINST DELIVERY

It is a pleasure for me to address your annual meeting -- not only because your members are key players in the Canadian economy -- but also because I am very encouraged by your preliminary response to the proposals in our government's discussion paper on financial institutions.

Insurance companies have been waiting since 1932 to move with the times, so I must admit I am not too surprised by your early and positive response to the proposals. And I am sure that during the course of your sessions and workshops, you will produce more constructive comments to bring forward to me and to the Parliamentary Committee.

What is gratifying to me -- and to the government -- is the way Canadians right across the country -- from the corner of St. Clair and Bathurst to King and Bay -- from Peel and Ste. Catherine to Georgia and Granville -- are responding to the challenge of shaping our future. Every one of us must take responsibility for our future. But we, as a government, must ensure that collectively we establish the parameters for our future prosperity.

Most recently our determination to provide the best policies and the changes our economy requires was presented by my colleague, the Honourable Michael Wilson. The budget Michael tabled last week emphasized the strong role that individual initiative -- private initiative -- must play in renewing the economy. Government -- certainly governments acting alone -- cannot by themselves bring about lasting prosperity.

Our government's first full budget emphasizes our fundamental belief that a strong, healthy and unfettered private sector will predominate our economic renewal. From coast to coast, Canadians have told us they agree. They are willing and able to generate new investment -- new business activity and employment. However, they also told us they need an environment free of unnecessary government intervention; they need greater access to financial resources for expansion; and they need confidence that their hard work will lead to a better life today -- tomorrow and every day after tomorrow.

That is why our budget proposals emphasize the need for individual initiative and private sector innovation supported by responsible financial and economic policies that will provide a durable framework for growth. My colleagues and I are incorporating your ideas into our policies because we believe that you -- the thinkers, the doers and the innovators in the private sector -- can best put the country back on track. This is something to which our government is firmly committed -- the belief that ordinary Canadians like you and me can -- and will -- inspire constructive change.

And, that is why the proposals we put forward -- whether they are social policy or economic policy -- reflect the needs of Canadians and the desires of Canadians. That is also why the budget proposals include a lifetime capital gains exemption of half a million dollars; we want Canadians to savour the rewards of their efforts and investments in Canada.

In addition, the commitment of every member of this government to hard work and to a genuine belief in federal-provincial reconciliation has already ensured that government actions benefit our regions and industries.

The energy accords reached between my colleague, the Honourable Pat Carney and her counterparts, in Alberta, Saskatchewan, British Columbia and Newfoundland deserve mention. These are significant agreements -- and not only because they provide more equitable federal-provincial-private sector arrangements.

These energy accords signify a new era of federal provincial co-operation and more jobs for unemployed Canadians.

A rig in Alberta does not just mean jobs in Red Deer and Peace River. An oil rig in Alberta means jobs in the plants of Hamilton and Sarnia. A rig on the Grand Banks means jobs on the rig, jobs on the supply vessels and on land. A new rig anywhere in Canada means jobs for young engineers from St. John's to Victoria.

This new era of federal-provincial harmony is an essential part of our national goal for economic renewal all Canadians want. Our government intends to make it possible for us, whether we are individual Canadians or businesses, to achieve our potential. That is the way to our future prosperity. We need a concerted and concentrated effort by all Canadians, particularly by the private sector.

With this in mind, we examined some major concerns in the financial institutions paper which I would like to emphasize today. They relate to people, co-operation with provincial governments and the future of the industry.

In the paper, the principles and proposals we established would benefit consumers -- individuals and businesses across the country. They would also benefit the financial services industry and, consequently, the economy as a whole.

Our government believes that, if we are to achieve our goals for economic renewal, the financial industry will have to play an important part. That is why our government noted the need for a review of the financial institutions legislation as early as the Speech from the Throne and the November Economic Statement.

The discussion paper takes the long view. We want to build a firm framework that will last for some time. And we want to provide a framework in which institutions can grow and innovate. We intend to enhance our financial services institutions so that Canadian depositors, savers, borrowers and investors benefit. This theme of growth and innovation is evident in all the government's policies. It is the type of approach which, in every sector, will lead to a population which takes hold of opportunities that arise, creates new opportunities and, rebuilds our economy.

I do not need to impress on you that, in our day and age, the future quickly becomes the present -- especially in the financial industry. Legislative adaptation in this area is particularly important now that the range of activities performed by the various institutions has changed -- rapidly in recent years. Technology, for example, has enabled some financial institutions to offer different financial packages and technology has also provided new ways to deliver services to Canadians.

But technology is only the tip of the iceberg. Myriad market forces -- interest rates, the maturing of the baby boomers, innovative marketing -- are changing the way financial institutions do business. And although legislation and regulation in this area -- at both the federal and provincial levels -- have also changed, they really have not kept pace.

The financial institutions discussion paper I tabled reflects our government's new public policy direction. More specifically, it establishes that regulations must keep pace with market forces to allow changes that provide benefits -- and to ensure that safeguards are not eroded or flaunted by the changing circumstances. In the financial services sector, the regulations must, above all, ensure the continuing and well-deserved reputation for stability, solvency and security that our financial institutions enjoy.

These are the principles which guide our thinking. These principles are not negotiable; however, I have left ample room for "horse-trading" on the details.

The principles in the discussion paper are the basis for consistent and sensible ground rules for our financial institutions. The principles provide for greater consumer protection; they provide for more competition among financial institutions and they enhance our prospects for economic renewal.

The policies which will emerge from the open process of public discussions and parliamentary consideration will be consistent with these principles. I look forward to hearing from you by the end of July.

In our rapidly evolving financial environment, I believe the government's regulatory policy should avoid the imposition of a pre-conceived structure on the financial system. But at the same time, it is critical that we have regulations to ensure the soundness of the system and the protection of the consumer. It is also critical that market forces operate to shape the dynamic, efficient and competitive financial system that our economy needs.

I understand that certain members of your organization already have some views about one of the proposals in the paper which would allow the creation of financial holding companies that could combine non-bank financial institutions and a new category of banks into a co-ordinated, diversified financial services group. This concept will provide the institutional flexibility which I believe is necessary now. It will also provide an organizational principle for the financial services industry that will facilitate effective regulation.

A Schedule C bank would be affiliated to a financial holding company. Schedule C banks would have all the powers -- and be subject to all the same regulations -- as Schedule A and B banks. This proposal would provide financial holding companies with the means to become fully involved in commercial and personal lending and it would also maintain a consistent framework of regulations for these activities.

Another proposal we put forward in the discussion paper would provide more flexibility around the investment rules for non-bank financial institutions and pension funds. The main purpose for investment rules for financial institutions and pension funds is to secure a portfolio of good quality. As you know, good quality is defined from the point of view of solvency of the institution or the fund and its continued ability to meet its obligations.

We are suggesting a new approach to achieve this purpose: the "portfolio" approach for financial institutions and pension funds. A portfolio approach would maintain the highest quality while providing additional flexibility to the institutions. Under this approach quality tests on individual investments would be replaced by greater emphasis on diversification of the portfolio as a means of reducing risk. This approach would be supplemented by quantitative restrictions on certain kinds of assets. This means that as long as the investing institution keeps within the percentage limits on corporate equities, it could, for example, invest in whatever equities it felt offered the best income opportunities. The present requirements that equities meet certain earnings and dividends tests would no longer apply.

This portfolio approach would stress the solvency concern by requiring an appropriate amount of diversification of assets and a suitable relationship between their assets and liabilities. Financial institutions would gain greater flexibility and the ability of non-financial corporations to issue new securities would be enhanced.

We feel that this approach would help small and medium-sized businesses entering the market for equity capital for the first time, or seeking to restructure their balance sheets by issuing additional equity.

Our May 23 budget also enhances opportunities for small and medium-sized businesses to attract new equity capital. I am referring specifically to the proposals for pension reform and pension plan investments. The measures acknowledge the need for adequate incentives and fairness in the structure of our private pension system. The measures also provide the flexibility and allow the personal initiative which are essential to ensuring that Canadians prepare for their retirement in a self-reliant manner. The budget proposals introduce improvements to minimum standards for private pension plans under the federal Pension Benefits Standards Act. The proposals also place RRSP holders on an equal footing with persons in other types of pension plans.

What may be of most interest to your members, however, is the proposal with respect to pension investing. Registered retirement savings plans would be able under our proposals to invest in private Canadian corporations with which they deal at arm's length. This will encourage the redirection of significant amounts of capital from one of the fastest growing pools of savings in the country. We need this type of investment to facilitate a general economic expansion and a lasting economic renewal.

This proposal, along with the capital gains measure and the labour-sponsored venture capital initiative will encourage investment in our economy that needs financing to create more jobs. The pension reform proposals also reinforce our belief in the ability of Canadians to plan for their future -- if the proper framework is in place.

Our government also believes it is important to promote innovation.

Networking is an innovation that meets the financial needs of individual Canadians and Canadian businesses. For example, networking would facilitate the packaging of various financial services to suit small businesses -- or to suit the needs of individual investors, depositors or borrowers. I think it is key to our government's proposals that regulations must leave the door open to innovation.

Of course, all efforts to promote innovation and competition can only bear fruit in a sound financial environment that inspires confidence. Therefore, the proposals address the all-important need to maintain institutional solvency and stability. Such measures are, I believe, central to maintaining public confidence in our financial system.

I would mention, too, that the proposals in the discussion paper do not have any direct, short-term implications for insurance brokerage. This activity is regulated provincially. My proposals affect only federal regulations. However, the insurance brokers obviously have a long-term interest in the direction that financial institutions take. Insurance brokers are a significant part of the small business sector that our government feels will be an important engine of growth for our overall economic renewal. And, it is therefore important we reach an understanding on how the insurance sector fits into the overall framework described in the discussion paper.

I have already mentioned that sharing jurisdiction has not been an insurmountable handicap to energy accords. In the financial sector, shared jurisdictional responsibility also raises numerous issues which are complex and sensitive. And yet, interprovincial and federal co-operation has led to some reduction of regulatory discrepancies. This has been particularly true with trust companies, as many provinces have modelled their own trust companies' acts after federal legislation. And it is also true in the area of deposit insurance.

I am confident -- as are my Cabinet colleagues -- that with consultation, the federal and provincial governments will achieve the appropriate harmonization of their regulatory framework governing other financial institutions.

The federal government is already seeking to improve the smooth functioning of our financial system and we are confident of the co-operation of the provinces. We are looking to harmonize financial institutions legislation with the provinces. I am sure I do not need to tell you that, given the great importance of our financial institutions in the operations of the economy, both levels of government must ensure the financial system is not burdened with greatly differing regulatory approaches.

I have undertaken preliminary consultations with several provinces. We shall continue to seek the views of the provinces and explore every possibility to harmonize and co-ordinate the legislative changes that will be taking place at the federal and provincial levels. This will mean more hard work, co-operation and open-minded attitudes -- on all sides. I believe there is the political will and sensitivity to respond to the national interest.

Clearly, there is much at stake. As members of the financial institutions community, your input into the process and the eventual regulatory reforms are needed. We set in motion a process that is bringing people and ideas together. I have said before, and I will say it again, we need action now, not sometime in the future.

The Department of Finance will release a technical paper on financial institutions soon. I look forward to receiving your views in greater detail -- especially on the development of closer working ties among different types of financial institutions, the trend towards concentrated ownership of trust companies and insurance companies. Not all the changes are of equal concern, but where costs are high, public policy makers must be resolute.

We intend to provide the institutions with appropriate legislation which ensures the continuing confidence of the public. Public confidence is the lubricant which allows a smooth functioning of the financial system. Its value is not easily calculated. In considering the future evolution of the financial system, this is clearly one of the more important considerations. That is why developments in the future must restrict self-dealing and conflicts of interest and improve the powers for regulators.

I believe -- our government believes -- that the proposals in the paper show our faith in the future. We believe difficulties can be resolved, consumers can be protected and the institutions can prosper. Just as a spark can light a bonfire, or one step begin a journey, these proposals can lead the way to the more competitive and flexible financial sector Canadians want.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 1300 hours EDT

Ottawa, May 30, 1985
85-92

Notes for an address
by the Honourable Michael H. Wilson
Minister of Finance
to the Canadian Economics Association
Montreal
May 30, 1985

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Let me first express my thanks for the invitation to address the Canadian Economics Association. Coming just a week after my first budget, the occasion certainly is timely.

I should tell you that on becoming Minister of Finance I was warned that one of the hardest parts of the job would be reconciling the spectacularly conflicting advice that I would receive from professional economists. Let me assure you that I haven't been disappointed.

Speaking of advice from economists, I am also reminded of the story about two fellows who drifted off course in their hot-air balloon and ended up totally lost and surrounded by thick clouds. Suddenly, the clouds parted and they could see the ground. They called down to a man walking his dog and asked, "Where are we?" The answer came back, "You're up in a balloon." Then the clouds closed in again. One fellow turned to the other and said, "Just our luck to ask for help from an economist." "How can you tell he was an economist?" asked the other. "Because he gave us an answer that was absolutely accurate and not particularly helpful."

Despite a lot of contradictory pre-budget advice from all quarters, I think everyone agreed in advance of the budget that the government faced some very difficult choices in terms of both short and medium-term policies.

I have designed this budget recognizing that it is not just an economic document but also a statement of financial and social policy which must be set in the context of the political times in which we are living.

I have therefore been encouraged by the response to my budget not only from the business and economic community but also from the general public.

In the response to the budget I sense a strong measure of agreement on some key issues:

First, there is a broadly-based understanding that the government has acted to control and reverse fundamentally threatening fiscal trends while taking care to minimize the risk of weakening the current pace of economic growth. Let me just summarize the fiscal problem for you. We inherited a situation in which the accumulated debt of the government was growing three times as fast as the economy. Interest charges on the debt had soared from $8 billion a year in the late 1970s to $22 billion last year. To continue as we were would have been to threaten our capacity to manage our affairs and to continue to deliver necessary services and programs.

And economic growth was not solving our problems. This fast growth in our debt has occurred during a period when the economy in Canada has expanded at a rate only slightly less than in the United States where economists have viewed the growth rate as clearly unsustainable.

Secondly, there is a clear sense that we have brought forward positive measures to encourage more productive economic behaviour. Our objective is an internationally competitive economy able to create the jobs needed to employ all our citizens; and an economy that can provide Canadians with the standard of living, quality of life and security that they so clearly want.

The past week has brought me a great deal of new encouragement for the strong confidence that the budget places in the present and future initiative of Canadians. I place considerable emphasis on the future because I believe that more and more Canadians will be encouraged by the budget to invest more directly in the growth and the success of the economy. We want more Canadians to have a direct stake in the performance of the economy through ownership of productive assets, not just ownership of their own labour.

As for the lack of perfect agreement among economists, let me just say that I would be more concerned if economists didn't share in the human propensity to see things in a rich variety of ways. Without a heavy dose of humanity, yours

would indeed be the 'dismal science'. And that applies equally to the job of finance minister.

Let me say that in the objective of more jobs for Canadians there is no disagreement. There is disagreement over whether sustainable long-term jobs can best be created by increasing or decreasing the deficit. We came down strongly on the latter side but we respect the fact that all sides of the debate have the same admirable objective.

In my remarks today, I want to underline some of the key philosophical and practical considerations that shaped the economic, social and fiscal policies in the budget. I have already alluded to the most important element in our approach to the challenge of economic renewal -- the human element.

In the course of my remarks, I hope you will permit me to speak for a few moments somewhat beyond this forum to a wider audience. I believe this is particularly important in light of the kind of budget we have brought forward -- a budget that sends a very strong message to those Canadians in a position to help create a more successful economy.

My background in the business and investment community and my experience in politics and government have given me a broad view of the human dynamic of economic and social progress.

Despite the image of large impersonal corporations and bureaucracies, of mechanistic and irreversible economic forces, the fact remains that the decisions which ultimately determine the course of economic activity are made by people, individually or collectively.

The economy is carried forward -- or backward -- on the momentum of the actions and interactions that result from the full range of economic decision-making, whether by governments, investors, corporate managers, consumers or anyone else in the marketplace, but in each case by people.

The finance minister's job is important, but the fact remains that what really drives the economy are those myriad decisions made every day by each and every one of us.

Getting an economy to work better is fundamentally a matter of getting the conditions right for people to behave in economically optimal ways -- for example, to invest their money and their efforts in growth- and job-creating enterprises able to compete in the world's marketplace.

That, in a nutshell, is the basic approach that we took to the budget.

Accordingly, it is a budget that recognizes the central and vital role of private initiative and risk-taking as the driving force in generating growth, employment opportunities and the wealth needed to improve living standards.

It is at the same time a budget that recognizes the crucial supporting role of government in the encouragement of productive economic behaviour. But it is also a budget that recognizes the limitations of government in this regard. That is the philosophical break from the past that I have repeatedly referred to.

The record shows all too clearly what can happen when government overreaches itself; when the judgments of politicians and bureaucrats are substituted for those of people in the marketplace.

Economic activity becomes more and more regulated, subsidized, distorted; initiative becomes increasingly frustrated. Entrepreneurship withers; efficiency gives way to politics and expediency.

What Canada needs is a flexible economic framework that improves opportunities for entrepreneurial success. Such a framework must of course accommodate the possibility of failure as part of a creative process of growth -- in your terms, Schumpeter's process of creative destruction. In past years, we have developed an increasingly rigid system that hinders success and institutionalizes failure. And that is a very costly business for government as well as for everyone else.

As deficits rise and debt grows at a rate far greater than that of the economy, the capacity of government to give effective support to productive economic activity begins to shrink. Furthermore, the very existence of soaring deficits and debt itself constitutes a growing obstacle to the positive private sector decision-making that holds the key to growth and jobs.

The most serious costs, however, are not measured in dollars. They are measured in people: young people unable to find a first job, older workers laid off, families plunged into debt and despair, pensioners -- our parents who built this country so well for us -- afraid for their future.

The maintenance of an effective social security system is a fundamental requirement of economic as well as social policy. My budget addresses that need in a fair, socially responsible way. But disadvantaged Canadians need much more than that.

Most of all, they need an economy that works better to produce the jobs and the incomes that will enable them to share fully in the benefits of living in this rich and favoured nation.

Least of all do they need a government that perpetuates illusions about what it will take to create good, satisfying jobs and to maintain them in the face of ever-tougher competition in the domestic and world marketplace.

That is why I brought forward a budget designed to be fair, realistic and effective. And we wanted not only the appearance of fairness, we wanted the reality. We wanted it to stand up to scrutiny.

I acknowledge that fairness is one of those concepts fraught with subjective feelings.

From some quarters, for example, we are constantly being told that it is unfair to increase taxes for individuals when the business sector could be taxed more heavily instead.

Let's overlook for the moment that taxes on business have a tendency to be passed on, sooner or later, as taxes on people. That's one of the realities that finance ministers must live with. Taxes are paid by people, not by goods or services or buildings.

Regardless, I simply do not buy the argument that weakening the financial position of the corporate sector would be helpful to those people whose only hope of a meaningful job depends directly on the health of the business sector in this country.

Allow me to underline the point: There is nothing more fundamentally unfair than an economy that is stagnating for lack of effective action to get people investing once again in growth and job-creating enterprises. That is why this budget is so clearly directed at the small business community -- the part of our economy which has so effectively been the source of most job creation in recent years.

Now I acknowledge that it would be just delightful if we could solve our fiscal problems by asking only rich people to carry the burden of restoring fiscal responsibility. But this brings us face to face with another one of those sobering realities that finance ministers cannot escape: No matter how we define the term, Canada has an acute shortage of rich people.

For example, those reporting total incomes greater than $60,000 in 1982 accounted for about one and a half per cent of all tax filers. They represented about 10 per cent of total income and they accounted for about 18 per cent of the personal income tax collected.

Notwithstanding that some high-income earners have categorically not been paying their fair share of taxes in this country, it is clearly mistaken to think that less than 2 per cent of income earners with 10 per cent of the total income hold the solution to the country's deficit and debt problems.

Let me reiterate the government's commitment to introduce a minimum tax to take effect in 1986 to ensure that high-income earners pay a reasonable share of the tax burden.

All things being equal, I would have introduced such a tax in time for the current year. But we must recognize that there are serious issues involved in the design of such a tax. An improperly designed minimum tax could not only be unfair in its own right but could have a damaging effect on the job-creating economic growth that the budget is designed to support.

The costs of putting the government's finances and the country's economy on a stronger footing must and will be shared widely and fairly. But let's also keep the benefits of our policies in perspective -- they too will be shared widely.

For example, reducing deficits and controlling the borrowing requirements of government will ease pressure on domestic interest rates. A relatively modest drop in the level of interest rates can more than offset the effect of all the tax increases in the budget for many millions of Canadian consumers and homeowners. And all of us will be better off as the economy grows, generating more jobs and more wealth to help sustain and improve living standards for Canadians in all income groups.

Some commentators have described the budget's approach to economic renewal as a form of "trickle-down" economics. I suppose that is another of the discouraging realities that finance ministers must accept -- the certainty that some people will get things 100 per cent wrong in attempting to describe the government's policies.

If ever a budget put the emphasis directly where it is needed to encourage job-creating economic growth on a broad and durable basis, it is this budget.

When more and more Canadians invest in risk-oriented enterprises with the capacity to create growth and jobs, then the reservoir of economic benefits is increased in a direct and dynamic way.

When a small business is established or begins to grow because of the initiative of individual Canadians, the benefits don't trickle down -- they flow out directly into the economy and to people. The capital gains exemption by its design is directed at small business and middle-income earners to give them a strong incentive which will result directly in job creation.

For too long, Canada has settled for economic and fiscal policies that all but guarantee a mere trickle of benefits for Canadians. Changing that pattern will be a long and challenging undertaking, but change it we must. And my budget has taken a firm step on the road to change.

The problems of the deficit and the debt; of excessive government intervention in the economy; of an under-developed private sector; all these have been well understood for some time. The difference in my budget is not in the analysis of the problems; it is in the actions that we have taken, the measures we have put in place, to face our problems head on now and in the years ahead. My budget makes a fundamental break with the past in coming to grips with our economic challenges.

I have been talking, in one form or another, about the realistic balance that the government has demonstrated in its approach since taking office last September.

Just as fairness is an essential aspect of this balanced approach, so is the need for policies that are effective. Without fundamental economic renewal, the foundation for growth and new employment will continue to be shaky. Without the new spirit of reconciliation and harmony that this government is building across the country, we will not be able to build the stable, balanced base necessary to ensure economic progress all across Canada. We must continue to move forward in a careful, balanced and comprehensive way.

Nowhere is the concept of balance more central to the budget than in our measures to restore order to the government's fiscal affairs.

But it isn't the kind of temporizing balance that comes from finding the mid-point on a numerical scale or a spectrum of opinion. I am talking here of a balance that reflects the real needs of the economy as we faced them in both the short and longer terms.

For example, some commentators have suggested that the budget's short-term fiscal stance reflects a political saw-off designed to split the difference among

those who wanted either a smaller deficit or a larger one. In other words, a political compromise solution for an economic and fiscal problem.

On the contrary, I suggest that the most politically advantageous deficit figure to bring in would have been just under $30 billion -- if we had focussed only on the fiscal element of the budget package. But the choice we made reflects our judgment of the most responsible policy course in the current economic context. That context includes some uncertainties about the future course of the American economic recovery.

And it reflects our desire to set in train today the policies which would have a meaningful but balanced impact on the deficit in the medium term. From the start it has been a commitment of this government to carry out a firm, measured program of deficit reduction over the medium term. We have honoured that commitment with a set of policies that will bring about lower deficits and control of the debt without tipping the economy off its current growth course.

The shorter-term impact on the economy of the tax increases must be balanced against the tax decreases, the freeze on unemployment insurance premiums, the release of existing RHOSP funds into the economy and major proposals to boost private initiative and productive investment throughout the economy. The longer-term measures also have the advantage of taking effect in a gradual way. This is particularly the case with the modified indexation of the personal income tax system and of some transfer payments to individuals. And we have continued to provide full indexation for the guaranteed income supplement for the neediest elderly citizens.

The longer-term impact of our policies is nonetheless equally in harmony with the inescapable need for firm and sustained reduction of deficits and control of accumulating debt. By the 1990-91 fiscal year, we forecast that the discretionary actions we have taken will have reduced the projected annual deficit by $20 billion and will have cut a total of $75 billion from the projected public debt. That represents a dramatic improvement over the situation that this government inherited less than nine months ago.

I want to emphasize that the economic assumptions underlying the budget's fiscal projections are as conservative as the budget is progressive. We have assumed, for example, a significant slowdown in the United States economy to a real growth rate of 2 per cent in 1986. Our interest rate outlook is based on the expectation of moderate improvement in conditions, but certainly no dramatic reduction in real interest rates. These are projections which we are targetting to improve upon. They are also projections designed not to create illusions that our actions are based on false hope.

In addition, I strongly believe that it is not possible for econometric models to quantify factors such as growing economic confidence -- or even the impact of a measure as specific as the capital gains exemption which the budget introduced. Just how well we can do to create growth and jobs is neither measured nor limited by our forecasts. The fact that this response cannot be measured does not in any way minimize my confidence that increased growth and jobs will result.

We were committed as well to carrying out deficit reduction primarily through expenditure control rather than tax increases. Again, this reflected a judgment about the proper balance needed to ensure the best economic results.

Fully 80 per cent of the projected reduction in deficits in 1990-91 will result from action on the expenditure side in November and in this budget, and only 20 per cent from our tax actions.

Finally, the concept of balance is inherent in the fact that so many of the initiatives to reduce government spending will make a contribution on several levels at once -- not just to deficit reduction but to more effective and efficient government, to improved fairness in the tax system and to the removal of obstacles to the growth of the private sector.

I want to emphasize that the budget is one step on a much longer journey to economic renewal. For instance, the job of making government more efficient and effective in its own right and in supporting economic growth has really just begun. Our trade initiatives have just begun to explore the possibilities for

providing Canada with the secured access to international markets that are essential to growth and jobs. The list goes on and the work goes on.

As I said earlier, the response to the budget has been encouraging. I am particularly encouraged by the broad acceptance of the budget's premise that all Canadians, one way or another, must participate in the drive to restore productive economic vitality on a durable foundation.

Some say the budget doesn't go far enough fast enough. I respect that point of view.

Some have suggested, on the other hand, that this government is attempting far too much -- trying to bring about a fundamental change in the economic culture of the country. That is not quite correct.

I believe such a change is already under way -- largely driven by the realities of international economic developments.

The issue is whether Canada and Canadians will make the change to a more dynamic, more entrepreneurial and more innovative economy quickly enough to maintain and improve our economic position.

There is reason to be confident that we will succeed. We have learned from bitter experience that economic and fiscal failure can be self-reinforcing. Now, with the help of forward-looking new policies that reinforce positive change, I believe Canadians can more than meet the test of the future.

It won't be easy. It will take time. But through our individual and collective efforts, we have begun to build a new tradition of success on a foundation of renewed strength.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 2359 hours EDT

Ottawa, May 31, 1985

85-93

Notes for an Address
by the Honourable Barbara McDougall
Minister of State (Finance)
to the Vancouver Stock Exchange
Vancouver
May 31, 1985

CHECK AGAINST DELIVERY

It is a pleasure to be back in Vancouver.

Even on the "laid back" West Coast, I am sure there is an occasional feeling that the world today moves fast -- that is particularly so with regard to financial markets and institutions. The "things" we all talk about, whether they be attitudes, modes of transportation or financial institutions are changing rapidly.

Change is a word that means a great deal to our government too. We were elected to bring about positive change in the economy of Canada. I believe we have been doing just that. And, with the budget, we take our economic goals a step further -- with action. We are encouraging private initiative; managing government more effectively; and controlling the national debt.

In the matter of the national debt, we are carrying around a burden that -- frankly -- is weighing us down. It is part of a vicious circle of high unemployment and our rapidly growing national debt. These are the two most serious problems facing Canada. And they are instrinsically linked. High deficits constrain our ability to promote growth and create jobs. High unemployment, in turn, contributes to even higher deficits.

Our budget contains measures that address both of these problems in a balanced and coherent way that also encourages economic renewal.

The budget emphasizes fiscal responsibility. But it is not a "deficit control for the sake of deficit control" budget. Such a philosophy has no place in the plans of our government. The issues at stake are too complex, too interwoven, to be determined by any one narrow philosophy. The budget measures have been carefully selected and balanced to further the broad goal of economic renewal. We will continue in this approach.

There is concern for people in our deficit control actions and in our efforts to restore individual responsibility. We have demonstrated this concern by facing the real problems that stand in the way of the better future we all desire. But, there is no room for wishful thinking in our policies. We -- or any other government -- cannot be all-knowing and all-giving.

By bringing forward realistic, effective policies, we recognize the part individuals must play in the challenge of economic renewal. We are showing Canadians that we believe in them and their abilities. Moreover, we are acting with respect for the wishes of Canadians -- now -- and with the aspirations of Canadians -- for today, tomorrow and the day after tomorrow.

Canadians -- whether they live on the west coast, the east coast or anywhere in between -- know that we are a government of action. A government that faces problems realistically. We are keeping the economy going. We are proposing the best solutions to the very real and serious problems in the fight for economic renewal. And Canadians have told us they want to take part, to contribute to economic renewal.

In our first full budget since taking office, we made some difficult and tough decisions. But we have made the decisions with a sense of fairness and compassion. They are well balanced decisions. They protect those Canadians who most need assistance from the government. And they give creative, innovative and energetic Canadians a chance to show their stuff.

It is a budget of opportunity. The future of our economy -- our future -- depends on the ability and innovation of individual Canadians. Our budget puts forward initiatives for Canadians to make their own decisions -- including the investment decisions that create jobs. That investment is our future. Our government is confident that Canadians will do it -- that you are willing to make good things happen.

In all of our discussions we heard from Canadians determined to build a society in which we share with each other the responsibilities and the burdens. Our budget reflects what we have been hearing from Canadians -- and we have been

hearing a lot. In fact, this budget has benefited from the most extensive consultations in Canadian history. Canadians told us they can do it, but that they need a government working with them not against them.

At the Regina First Ministers' Conference, for instance, the Prime Minister carried the message of mutual respect, co-operation and self-reliance to the other levels of government. And we listened to the provinces' views.

At that conference, my colleague, the Minister of Employment and Immigration, announced a new approach to training and employment. The old ways did not work. Our new approach aims at career development not just short-term jobs. Our approach is practical and innovative and is designed to take advantage of your knowledge of businesses, large and small in the local communities. You are the people who know what jobs will be needed tomorrow -- not just what was missing yesterday.

In our May 23 budget we allocated an additional $900 million for fiscal year 1986-87 to these training and employment programs.

My colleague, Pat Carney, the Minister of Energy Mines and Resources, has also demonstrated -- through her energy accords with the producing provinces -- our determination to build a vital petroleum industry in Canada. And we will build it in harmony with the provinces and with the private sector.

The legislation tabled with the budget gives effect to the Western Energy Accord. This accord and the one signed with Newfoundland will ensure that all Canadians share in the benefits.

Even before the budget, of course, we recognized that there are those in Canada who continue to need government assistance. In November, the government extended eligibility for the spouses' allowance for the elderly to an additional 85,000 low-income widows and widowers. We accepted the concept of employment equity brought to us by Judge Rosalie Abella. We are moving on divorce laws and the Criminal Code.

In the budget, we are proposing to broaden the definition of disability for income tax purposes. This proposal is expected to benefit 120,000 individuals.

Some of the decisions arising from our studies were difficult to make -- like the changes to indexation. But they are part of the necessary measures in our fight for a reduced deficit and to create an environment conducive to employment. And I believe our decisions are fair.

This is our first budget. One of our major goals is to make government more effective and improve management. We also believe that sustained economic renewal will have to come from a revitalized private sector. However, before asking Canadians to share in the journey to economic renewal, we had to demonstrate that we were tightening our own belt.

During the election we told Canadians that we knew there was a need -- an absolute need -- for change to responsible fiscal management of the government's affairs. Canadians agreed with us. And time and time again -- in just eight months -- we have proven we meant it. We have reduced government overhead, streamlined programs and procedures, restrained growth, rationalized programs and eliminated waste.

Our approach has been careful, balanced and systematic. We tabled, with the budget and on behalf of the Deputy Prime Minister, the first report of the Ministerial Task Force on Program Review. It sets out the decisions our government has taken in this important area of government responsibility.

These actions demonstrate to Canadians that we are serious. We are determined that fiscal responsibility will be restored.

And we have turned to Canadians to take a full part in the efforts, too.

We are providing opportunities for Canadians who are willing to work hard and bring about their own prosperity. As Michael said in his budget speech, we are rewarding success, not subsidizing effort.

We are reducing the red tape that strangles initiative. We are making government simpler, more effective and more efficient. We are making it more easily accessible for Canadians -- and particularly for those who need government assistance.

Changes proposed in the budget enhance opportunities for Canadian entrepreneurs. They encourage Canadians to become more self-reliant and to invest in our future. We have also assured Canadians that they will be able to enjoy the fruits of their labours. The lifetime capital gains exemption of up to half a million dollars provides significant recognition of the effort and initiative of individuals and will free up funds for investment in small and growing enterprises.

The innovative spirit of labour organizations was also accorded full recognition in our budget. Tax assistance will be given to individual investors in labour-sponsored venture capital initiatives -- along the lines of the Quebec Federation of Labour's Solidarity Fund -- that receive provincial tax assistance.

Let me take a moment to mention our proposed amendments to the Pension Benefits Standards Act. These proposals would go a long way to establishing more appropriate and effective minimum standards for federally-regulated pension plans. Vesting and locking-in standards are improved as well as portability, increased eligibility and early retirement benefits. The proposals benefit women through improved survivor benefit regulations, standards for pension benefit splitting on marriage breakdown and equality standards. The proposals would provide for better disclosure to employees of information relating to their plans.

Our budget proposals for pension fund investment and the RRSP changes reflect our faith in the ability of Canadians to be able to make their own investment decisions.

We are saying: invest -- it's your future, too. And we are saying the government will let you help make Canada strong and prosperous.

My purpose today is not to repeat all our budget proposals. I want also to talk about my financial institutions discussion paper and how that process of change is progressing.

My discussion paper -- like the budget -- like our government -- is about positive change.

In the paper we recognized the key role of the financial institutions sector and that we did not have to start changing the system from scratch. Our proposals, therefore, ensure that our existing system continues to work well and is able to adapt to changing conditions in the marketplace.

Speaking as a Conservative, I am comfortable with the principles that we have put forward for the financial institutions. They speak to many of the values we share, namely a respect for equality of opportunity, a desire to see economic efficiency and competition, and continued economic expansion and growth.

Since the release of the paper I have met with many representatives from the various financial institutions and governments. I would like to comment on some of the reactions I have received.

By and large, industry groups view the paper as a constructive effort to bring about positive and needed change. They generally approve of the policy directions taken in the discussion paper and have voiced support for many of the specific mechanics for implementing the policies. I have also received different views on how best to achieve some of these principles and will, of course, give them full consideration. All institutions have also told me that they are eagerly awaiting the technical paper which will be released in the coming weeks.

As you know, I have discussed the paper with a number of my provincial counterparts, too. The tone of these meetings has been co-operative and the desire is there to ensure a sensible meshing of federal and provincial responsibilities.

It is natural in an area where federal and provincial jurisdictions are so intricately intertwined for the sharing of responsibilities and boundaries of jurisdictions to be important topics. The theme of harmonization of policies has been perhaps the keynote of the discussion paper and the message I have tried to drive home with the most force.

The provinces are sensitive to the fact that the policies proposed in the discussion paper recognize, respect and support their role in the regulation of financial institutions and activities. Our government, as a matter of principle, is working closely with the provinces. We are not proposing a "power grab" or a re-shuffle of constitutional authorities. We want to co-operate in harmonizing our individual approaches to the benefit of both levels of government, the institutions and consumers.

The technical paper will, I think, reinforce this point. It will also clarify other key areas and will help you get a better understanding of how the proposals will work.

The technical paper focuses, for example, on how the financial holding company and Schedule C bank structure might work; how the self-dealing and conflicts of interest controls might work; how the legislation for non-bank financial institutions might be modernized, with particular emphasis on rules for investment and lending. This paper will also try to sort out some of the problem areas, but it is clear that it will not be able to resolve all the outstanding questions; some of which will have to be dealt with later in the draft legislation.

This paper, too, remains in the "discussion paper" mode, although it will take the discussion forward in terms of specifics. I am looking for feedback -- before the end of July. I want to hear about problems and I also want to hear about some solutions.

Let me indicate -- briefly -- the kind of additional information that you can expect from the technical paper. For example, in the first discussion paper the suggestion was made that greater responsibility could be placed on boards of

directors to provide internal scrutiny of institutions' activities. The technical paper puts forward for discussion a number of concrete proposals as to how this goal could be achieved.

As another example, the technical paper reviews some of the ways "Chinese Walls" have been created in practice in other countries. And how and where they might be applied in Canada.

Of course, those are just some of the questions that the discussion paper addresses.

Like our budget of May 23 -- and our overall philosophy -- the proposals in the discussion paper can best be described as firm, but fair. The budget gives inspiration to those who are innovative and dynamic; it shows consideration and action on behalf of those who are most in need. The financial institutions paper opens the door to opportunities for financial institutions -- while protecting consumers.

We were able to formulate our proposals with the concerns of Canadians and the industry in mind and with their ideas guiding us. We were able to benefit from views in all regions and from all sectors. In short, we were able to take advantage of perspectives from all across Canada.

Where do we go from there?

While we are awaiting the submissions that will come in after examinations of the technical paper, preliminary work has started on draft legislation and it will continue throughout the consultation period. The parliamentary committee will also review the discussion and technical papers and will receive submissions from the public. We are looking for a report by the end of September. I intend to table draft legislation as soon as it is ready and as soon as it can be slotted into the legislative agenda.

Canadians know that we can each contribute in one way or another to a better Canada. And, unless we all shoulder a part of the burden, the results will be more difficult to obtain and will take longer.

Our government intends to make it possible for each and every individual and business in Canada to succeed -- based on effort and hard work. Government, certainly government working alone, cannot bring about miracles of economic recovery and instant harmony. But together we can create the Canadian society we want.

We have the political will in Canada to face the problems. And we have the economy and the people to face them successfully.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, June 19, 1985

85-110

Notes for an address
by The Honourable Barbara McDougall
Minister of State for Finance
to the Canadian Club of Winnipeg

June 19, 1985

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

It's a pleasure to be back in "friendly Manitoba". I am grateful for your warm welcome and for the opportunity to address the Canadian Club of Winnipeg.

The budget the government presented to Canadians four weeks ago tomorrow has produced a significant, though predictable amount of analysis.

Sound and systematic analysis of anything -- whether a painting, a football game or a federal budget -- seems to me to proceed through a few basic phases.

First, there is the immediate overall impression or the first intuitive assessment -- the sort of reaction the budget gets on budget night, or the day after.

Next, there is the examination of the separate, individual parts which make up the whole. Since the budget, many of the separate measures have come in for close scrutiny. Given the comprehensive nature of the budget, that is bound to continue.

Finally, if the analysis is thorough and progresses to its logical conclusion, there is an ultimate synthesis. In this final stage the relation of the parts to the whole and vice versa is assessed. At this last stage a balanced perspective should be achieved.

Unfortunately, all too often, analysis and assessment in the political arena stop short after the second phase.

In the case of the budget that we tabled last month, its diversity and multiplicity of measures make it especially important to view the budget as a whole; to recognize it for what it is -- an integrated strategy to help us in the continuing process of economic renewal.

This budget is directed, first and foremost, at laying the foundation for future growth and wealth creation. And the reason for that is simple -- without a secure foundation of economic growth, we will not be able to provide the services and programs that Canadians want and need.

To achieve growth and jobs, the budget has at one and the same time three basic thrusts: to encourage private initiative and productive investment; to improve the efficiency and effectiveness of government; and to regain control of the national debt. All the measures in the budget support one or more of these basic thrusts.

I noted earlier that many of the budget analysts have been vocal. Change is never easy to accept and this budget is about fundamental change -- change in attitude; change in approach.

Some of that change has been forced upon us by the problems we have inherited and by the changing world around us.

But other changes are based on a new approach to solving those problems and meeting the new challenges.

Fundamental to that new approach is our view of the job and wealth creation process. It is our belief that creativity is an individual, not a bureaucratic act. It is unpredictable; and it cannot be imposed or directed from above. Governments don't create jobs and wealth. People do.

That is why we believe the proper role of government is to provide the conditions for job and wealth creation through private initiative -- through the investment of time, skills and effort by people.

The budget is designed to create the conditions for productive investment by people because that is the surest way to create job opportunities. By improving the conditions for investment, we intend that private investors will have the confidence, the encouragement and the resources to drive the economy to renewed growth and strength.

The $500,000 lifetime capital gains exemption is the cornerstone of our new approach. It is intended as a major and dynamic signal to trigger a fundamental change in the attitude of Canadians towards savings and investment. It is a bold statement to Canadians that capital is not income. Capital produces income, just as trees produce fruit.

Over the years, Canadians have gained a reputation as a nation of savers. Most of those savings have gone to the public sector in the form of interest-bearing debt. And while the government uses some of that money to invest in what we call fixed assets, most of it is funnelled into immediate consumption, such as servicing the ever-increasing interest payments on the national debt.

The capital gains exemption is designed to change this approach.

That measure says loud and clear: Instead of favouring the public sector, debt and consumption, we must begin to invest our savings in the private sector, equity and production.

That is the long-term objective of the capital gains exemption -- to encourage Canadians to rebuild the capital base of Canada that finances our way of life.

It is clear that a large measure of the innovative, growth-generating dynamism that can activate our economy now and in the years ahead will spring from small and medium-sized businesses. For them to turn ideas into growing business ventures, investment capital is vital -- particularly in the crucial start-up phase. We would like to see a substantial amount of new investment helping to launch fledgling businesses. The capital gains exemption will ensure that both those who commit their personal resources and energy to launching a new business; and those who take a stake in these enterprises will reap the rewards of their success.

Of course, the capital gains exemption is not only of benefit to small businesses. We hope Canadians will want to become shareholders of large corporations as well. That too is helpful to the economy. Investment in large,

existing corporations will help many firms to improve their balance sheets so that they can invest in new plants, new products, new technologies and new markets. In the end Canadians will benefit from the new jobs and improved incomes that their investment makes possible.

Some analysts have claimed that the capital gains exemptions will set off a new spiral in housing and land prices, and that Canadians will invest in art, antiques and other inflation hedges, rather than Canadian enterprises.

I frankly do not think that there is any such risk that Canadians will flock to such inflation hedges. The investment conditions of the 1980's are not the same as those of the 1970's. Indeed, rather than a surge <u>into</u> art, gold and paintings, I envisage a surge <u>out</u> of these assets and into investments with a greater chance of future capital growth. Fences would not keep people in. They would keep people <u>out</u> by limiting their ability to sell their artifacts and invest the proceeds in more productive assets.

But there is another reason why we have chosen to end the old ways of rules and regulations. We do not think that politicians and bureaucrats should impose <u>their</u> judgment on Canadians. That is what created our problems in the first place.

We want Canada to be a country where people want to invest, not where they are forced to invest by the state.

So far, I have discussed only the capital gains initiative.

Another vital component of our investment strategy is to encourage pension funds to invest in equity capital of small and medium-sized businesses. As you know, pension funds are among the largest and fastest growing pools of capital in the country. In the budget we announced that registered retirement savings plans and registered retirement income funds will be eligible to invest in private Canadian corporations with which they deal at arm's length. In addition, pension funds will be allowed to set up tax-exempt small business investment corporations to channel their investments into small businesses.

These and other measures should help to redirect significant amounts of capital into small and medium-sized enterprises. And the available pool will be further enlarged as a result of two other announcements in the budget. Membership in pension funds will be broadened for Canadian workers, particularly part-time workers. In addition, contribution limits on RRSPs will be increased significantly over the balance of the decade.

These are all positive initiatives to encourage productive investment. Going hand in hand with these initiatives is another central aim of the budget: that is to give Canadians the opportunity to re-discover the spirit and the satisfaction of self-reliance. I would wager than many Canadians do not for a moment consider that they are not self-reliant. Yet one of the destructive consequences of the gradual but relentless intervention of the government in the economy in the past fifteen years has been the erosion of self-reliance as a prime motivating force in our society and our economy.

When self-reliance is stymied by an impenetrable barrier of government rules, regulations and red tape, even the most determined individuals can give up in frustration and disappointment. Inertia takes over. Increasingly, this has been the case in Canada.

Canada needs to encourage the exercise of self-reliance as a fundamental virtue and as a national trait. The vitality of our economy depends on it.

In no area of the economy is self-reliance more likely to be found than in the small business sector. Small business is where bright, energetic, hard-working Canadians have the greatest opportunity to turn their ideas into their livelihood; small business is where self-reliance, initiative and determination are a prerequisite for economic survival; small business is where success brings a uniquely personal satisfaction, because success is truly self-made.

The budget includes a number of measures that will rekindle and nurture self-reliance among Canadians. The capital gains exemption will promote a new willingness to take a risk in building the economy, with the chance of reaping amply the rewards.

The major reforms to the private pension system which we announced in the budget will also promote self-reliance in saving for retirement. The proposals significantly improve the pension rights of all Canadians, but will be especially welcomed by women. The reforms will afford Canadians more opportunities and a better chance to build an adequate pension.

But no amount of investment or inspired self-reliance will ensure economic renewal if we do not also gain control of our serious debt problem. To ignore this problem would have increasingly negative effects on investor confidence. And this could deny Canada the investment, both foreign and domestic, that we require to fuel economic growth and to generate employment. We have been straightforward about this from the start.

What the national debt is in fact saying to us -- and what we have been trying to communicate to Canadians since we took office -- is that the deficit is indeed a threat to our prosperity and to our ability to finance government programs in the way we all desire.

That's the message that's getting lost in the current debate.

The debt tells us that we cannot indefinitely borrow prosperity that hasn't yet been earned.

The budget says that we need to get back to the basics of creating and producing wealth so that it can then be distributed as generously as we would wish.

Let me summarize the fiscal problem for a moment. Last September we inherited a situation in which the accumulated debt of the government was growing three times as fast as the economy. Interest charges on the debt had soared from $8 billion a year in the late 1970s to $25 billion this year. To continue as we were would have been to threaten our capacity to manage our affairs and to continue to deliver necessary services and programs.

In addition, allowing the debt to spiral would have created expectations in financial markets that we would resort to "printing money" as a way of diluting the debt. That would have intensified upward pressure on interest rates, downward pressure on the currency and crowded out business investment.

And while economic growth must be part of the solution to our problems, clearly it can't be the whole solution. The serious structural component of the deficit is simply too large.

The measures we announced in the budget, together with those implemented last November, are a solid step toward restoring order to the nation's financial position. They help create a more positive and stable environment for investment and growth. They will reduce the estimated deficit by almost four and a half billion dollars this year and by over $8 billion in 1986. And this impact of the measures will grow over time.

We have established a clear plan for dealing with this problem over the remainder of the decade. It is a balanced approach that reflects the real needs of the economy as we face them in both the short and longer terms.

Our deficit reduction measures reflect what we believe is the most responsible policy course in the current economic context. That context includes some uncertainties about the future course of the American economic recovery.

Because of these uncertainties, we have chosen to control the deficit now and to put into effect policies which will have a meaningful but balanced impact on the deficit in the medium term.

In the shorter term, we have attempted to balance the impact on the economy of the budget's tax increases and expenditure reductions against the tax decreases, the freeze on unemployment insurance premiums, the release of existing RHOSP funds into the economy and major proposals to boost private initiative and productive investment throughout the economy. And in the longer-term, we have timed measures to take effect in a gradual way.

While our policies must and will remain sensitive to today's needs, the longer-term impact of our policies is nonetheless consistent with the pressing need for firm and sustained reduction of deficits and control of accumulating debt. By the 1990-91 fiscal year, we estimate that the discretionary actions we have taken will have reduced the annual deficit by $20 billion and will have cut a total of $75 billion from the public debt, compared to what they otherwise would have been.

This is a tremendous improvement over the dangerous situation we faced when we took office last September. Indeed, at that time we discovered to our chagrin that the deficit was running $5.0 billion higher than the projection in the previous budget. Some increase had been expected, given Mr. Turner's warning that the deficit would be "somewhat higher". But $5 billion was "somewhat higher" than "somewhat higher!" However, we were also surprised to discover that future deficits were on a <u>rising</u> trend, not the declining trend as Mr. Lalonde had indicated, even with falling interest rates. We have no doubts that the success we have demonstrated in turning around this trend will be reflected in renewed investor confidence today and in the years ahead.

I want to emphasize that the economic assumptions underlying the budget's fiscal projections for the next two years are realistic and prudent. Our deficit reduction strategy is based on real discretionary actions and not unrealistic assumptions. We have assumed a significant slowdown in the United States economy to a real growth rate of 2 per cent in 1986. We have also assumed 90-day commercial paper rates of 10 1/2 per cent this year and 10 per cent next year. These are both very conservative assumptions. There is a very good chance that performance will be more favourable, and the federal deficit correspondingly lower.

We also believe that the medium-term performance of the Canadian economy will turn out better than the projections tabled with the budget. Those projections are based on econometric models which are unable to take into account factors such as growing economic confidence -- or even the impact of a measure as specific as the capital gains exemption which the budget introduced. They are also often based on outdated information. Witness the recent revisions by Statistics Canada to disposable income figures -- revisions which improve the

outlook for consumer spending. Just how well we can do to create growth and jobs is neither measured nor limited by a computer. The fact that human behaviour cannot be measured by computers does not in any way minimize my confidence that increased growth and jobs will result. In fact, it increases my confidence.

We were committed to carrying out deficit reduction primarily through expenditure control rather than tax increases. Again, this reflected a judgment about the proper balance needed to ensure the best economic results.

Fully 80 per cent of the reduction in deficits in 1990-91 will result from action on the expenditure side in November and in this budget, and only 20 per cent from our tax actions.

If the second major thrust of the budget was to regain control of our financial affairs, the third major thrust of the budget is to improve the efficiency and effectiveness of government. Like the deficit, the government-created web of regulations, subsidies and other forms of intervention which has grown over the years has created a major obstacle to growth. Though every bit as real as the deficit, this complex web is more diffuse and less easy to measure and quantify.

The Nielsen Task Force has made a good start at the complex process of restoring efficiency. And the process of review will continue until a responsive and streamlined government complements a growth-oriented private sector.

We are pleased with the reaction of the private sector to our efficiency measures so far. I think there is a growing recognition that a new government does not have the range of options for turning around a less than efficient organization that a new executive of a private corporation has. Clearly, ill-considered haste could do more harm than good. That is why we are making haste slowly. We are determined that we will not take one step forward and two steps back.

I said at the outset that a thorough and fair analysis of the budget requires that it be judged as an entire entity. If this perspective is brought to bear, the budget will be seen -- and I am confident is being seen -- as a realistic, effective and fair approach to Canada's economic problems.

The budget puts a rein on the deficit and the accumulating debt. It does so with firmness, but with sensitivity to the delicate course of economic growth.

The budget implements efficiency measures to ensure that government complements a strong and effective private sector.

And it provides opportunities for job-creating investment.

The challenge is there.

The opportunity is there.

Now is the time for Canadians to seize that opportunity, and to produce the jobs and prosperity that we all seek.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Immediate release

Ottawa, June 19, 1985
85-111

Notes for an address
by the Honourable Barbara McDougall
Minister of State for Finance
to the Canadian Automobile Association
Winnipeg, Manitoba
June 19, 1985

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

I welcome the invitation to address the Canadian Automobile Association.

The CAA represents an important national constituency with an economic role which can hardly be over-estimated. As Minister of State for Finance, I need no reminding of the pervasive impact of the decisions of automobile buyers and users on the national economy.

In my remarks today, I intend to address you not so much as members of a national automobile association but as members of the national economy that provides the income to pay for the car in the driveway, not to mention the food on the table and the clothes on our backs.

I also want to speak to you as Canadians who care about the future of this country and about the future of all its citizens. And I emphasize the word "all" as a prelude to my message here today.

That includes the very young who can only trust in our ability to manage this country with prudence and foresight so that they might have a fair chance to build fulfilling lives and careers.

It includes all those young people coming of working age and confronting an unemployment backlog of 1.3 million Canadians -- and hoping that somehow they will have their chance at a decent job.

It includes the 1.3 million unemployed, many of whom have seen their hopes shattered by the failure of the economy to grow strongly enough to create jobs and wealth.

It means, in short, all Canadians, young and old, who want to see this country placed firmly back on the road to meaningful prosperity.

It was in just such a perspective that the government accepted the challenge of economic renewal. And it is essential that we keep this perspective clearly and fully before us as we work to build an economic future of hope and opportunity for all Canadians.

We must not lose our focus on the fundamental challenges of economic renewal. We must not lose confidence in our ability and our willingness to do what is necessary to meet those challenges.

Nothing is more important than confidence in meeting the test of Canada's future. And confidence ultimately depends on believing in our own individual and collective capacity to face reality, to accept responsibilities and to grasp opportunities.

Before our government was elected we told Canadians that the creation of jobs in Canada had been severely damaged by the loss of economic confidence, confidence in the future of our country. And we promised that a revival of economic confidence would be a powerful force for the creation of jobs throughout the economy.

The election of this government made a dramatic difference to the level of confidence about the future of the Canadian economy. But it was confidence based not simply on changing the people who form the government or on the positive words we had spoken. It was confidence based on an expectation that real changes would be made to improve the performance not only of government but of the national economy.

In the Economic Statement presented in November, the Minister of Finance described the situation in which the confidence of Canadians had been steadily eroded. I believe it is worthwhile to repeat those words:

"When Canadians looked back, they saw an unprecedented decade of soaring government deficits and rising unemployment; of expansive, intrusive government and sluggish, uncertain economic growth ... an economic world that had changed and a country that had not kept pace with that change ... their government and their economy dangerously off course and off balance."

Accordingly, we presented a comprehensive set of new policy directions in the Agenda for Economic Renewal. The central theme was change -- the need not only to adapt to change as it happens inescapably to all of us but also to take the initiative in bringing about positive change. Change that will renew the Canadian economy and strengthen its capacity to grow and create jobs and to prosper in a tough international marketplace. And we took some actions to deal with some urgent priority needs.

But more than just spelling out the need for change, we gave our commitment to take the necessary further action after full consultation with Canadians.

We identified the essential elements of the economic renewal strategy:

-- Action to foster a climate for investment and innovation, for the birth and growth of new enterprise and for the improved competitiveness that is so essential to the creation of jobs.

-- Action to make government more efficient and more effective in its own right and in its job of supporting, rather than hindering, productive economic activity;

-- And action to control the growth of the national debt which increasingly undermines confidence in the future.

The Agenda for Economic Renewal and the initial measures which accompanied it gave a further strong boost to confidence. Our analysis of Canada's economic problems and our directions for change were remarkably well-received.

More importantly, rising confidence was translated into positive decision-making all across Canada -- and into actions which gave the economy a powerful boost. The prospect of long-term economic renewal touched off an immediate economic revival.

There is no more important measure of that revival than the creation of jobs.

Since last September more than 270,000 jobs have been created. That is nearly three times the number created in the same period a year earlier.

During April and May almost 160,000 jobs were created -- the biggest two-month increase in employment on record.

Since last September employment has increased by 2.5 per cent compared, for example, with 1.5 per cent in the United States. During the same period the unemployment rate has dropped by 1.1 percentage points compared to a drop of only 0.1 percentage point in the U.S.

These encouraging employment figures reflect the fact that total economic output in Canada has been rising at a rate more than twice as fast as in the United States since the latter part of 1984.

Major contributors to growth in the first three months of this year have included consumer spending -- up by 5.5 per cent at an annual rate; residential constructio up by 22 per cent; and a $1.3 billion increase in inventories. In each case, rising confidence is a crucial determining factor.

As a result of outpacing the growth of the U.S. economy in recent quarters, the overall increase in Canada's output over the 9 quarters of the current economic recovery is now slightly larger than in the United States.

The rate of inflation not only helps to determine the real value of the gains that we are making, it is also a key factor in building and maintaining confidence. And we continue to do extremely well on the inflation front. As last week's figures showed, Canada's rate of inflation has now remained at or below 4 per cent for 10 months -- the longest period in 14 years.

Equally important, Canada's inflation rate has been generally at or below the rate in the United States for the past several months.

Interest rates have fallen significantly. The prime rate stands at 10.5 per cent, the lowest since 1978. Mortgage rates have once again been declining.

Rising confidence in the future is strongly reflected in a substantial increase in planned new capital investment by business. For example, a survey of large corporations last year indicated a 6 per cent increase in capital expenditures for this year. A similar survey conducted in April raised that forecast to 13 per cent.

New investment means new productive capacity, new output and new jobs. And that in turn means more people able to increase their spending on goods and services and thereby generate even more new jobs.

The rising pace of activity in turn helps to build even more confidence -- and those who have been hesitant to invest and to spend are thereby encouraged to make a greater contribution to economic growth.

The recent and current strength of the Canadian economy has surprised most forecasters. This bears out what we have been saying about economic forecasts. There is no econometric model, no computer anywhere in the world, that can accurately forecast the impact of rising economic confidence on the performance of the economy.

After all, what we are trying to forecast is a complex series of decisions carried out by millions of people. When we make those decisions we are responding in our own ways to changing conditions, changing opportunities and, above all, to changing perceptions about the future -- basic factors shaped in substantial measure by confidence or the lack of it. And so, in turn, is our future.

Some things can be projected with a high degree of certainty. And one of these is the certainty that we in Canada are going to need a sustained improvement in both the quantity and quality of economic growth in the months and years ahead if we are to continue to build new confidence and to fulfill the hopes of our citizens and the promise of our future.

Once again, the unemployment figures outline the challenge in the most graphic way.

Although the unemployment rate has fallen more than 1.1 percentage points since September, it still remains at 10.5 per cent. The youth unemployment rate has fallen 2.1 percentage points since September but it still remains at 16.2.

Employment gains since the end of the recession have been made in all regions of Canada, but some areas continue to have exceedingly high unemployment rates.

So we must move forward with the fundamental changes that will make possible the renewal of our economy on a strong, durable foundation for long-term growth and job-creation.

And that's what the budget of May 23 is all about. It is about economic renewal, about growth and the sustained creation of jobs. It translates our directions for change into actions.

As promised, the budget brings forward actions to control the growth of the national debt; it takes major strides in making government more efficient and effective and less intrusive in the economy; and it provides strong new support for the development of a more innovative, more entrepreneurial and grass-roots approach to investment by Canadians.

This budget is above all a challenge to the capacity of the country to translate the widely-endorsed concept of economic renewal into a meaningful reality for all Canadians.

Meeting that challenge clearly is and must continue to be a dynamic, ongoing process. We must remain flexible, willing to adapt to new and better ways of getting the job done. But above all we must act. For without action, there is no enduring basis for the confidence that will drive the economy forward. Without action, we will fail to make the positive changes that will enhance Canada's ability to produce and sell more and better goods and services in tough world markets.

Let me highlight some key themes of our government.

From the start this government has said that the vast majority of new jobs in this country must be created in the private sector and by the private sector.

We said that economic growth and job-creation is fundamentally a challenge of investment and that Canadians must become bigger and better investors and entrepreneurs to build the kind of secure and prosperous future they desire.

We said that high deficits and rapidly accumulating debt must be brought under control if we are to create the growth and jobs that Canadians, and particularly young Canadians, so badly need.

And we said that all Canadians would have to work and share together in bringing about the changes that will help create new growth and new jobs.

Most importantly, this government is taking action. As a result, Canadians in all walks of life can now see, for the first time, in a tangible and personal way, what it is they are being asked to contribute to this great national undertaking.

We must not allow ourselves to lose this perspective, to be distracted from the fundamental challenges that face this country.

Let us not forget our young children and the kind of country that they will inherit if we fail to protect their future. Every newborn child in this country inherits a debt of more than $7,500. By the end of the decade it will have grown to more than $14,500. We are passing on a very large and rapidly rising debt to those who have not yet had their full chance to share in the benefits of living in this great country.

Let us also remember the needs of the 1.3 million unemployed and the thousands of young Canadians entering the work force every year. Let us remember the many Canadians who are working but are under-employed, with low wages and no guarantee of either continuing employment or income increases.

Finally, let us remember that unless Canadians in a position to do so begin to invest more of their capital in the future of Canada, we will continue to fall far short of our goal of an economy and a society that provides a reasonable measure of fairness and security to all.

That is why the budget gives a strong signal and provides real incentives for the dynamic, job-creating investment that springs from the individual choice and initiative of Canadians.

We are asking everyone to play a part, to make a contribution. But we are expecting the most from those who can begin now to invest the time, money and effort, to take the necessary risks, to build something of value for themselves and for Canada. We are telling them that if they do, they will be able to enjoy the rewards of that success. And as a result they will have additional capital that will be available for reinvestment in greater growth and greater economic security for all Canadians.

Everything that has happened since this government came to power tells me that our analysis of the private sector dynamics of economic growth and job-creation is correct. The new jobs created since September have come overwhelmingly from the private sector. And nothing has been more convincingly demonstrated than the vital role of confidence in the creation of jobs.

Since this government came to office, that's exactly what has been delivered: almost three times the number of jobs created in the same period a year earlier.

The challenge is to secure those jobs and build more and more of them on a renewed foundation of strength and stability: a foundation firmly set in a truly national determination to do what it takes to build a better future -- the kind of future that we can be proud to turn over to our children and grandchildren.

I am confident that we Canadians will meet that challenge.

We have just begun to show what can be achieved when realities are faced, when responsibilities are accepted and when opportunities are grasped.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Immediate release

Ottawa, June 25, 1985
85-114

TECHNICAL SUPPLEMENT GIVES FURTHER DETAILS ON PROPOSALS FOR REGULATION OF FINANCIAL INSTITUTIONS

The Honourable Barbara McDougall, Minister of State for Finance, today made public a technical paper elaborating the government's proposals for changes to the rules for federally-regulated financial institutions.

The paper is a supplement to a discussion paper "The Regulation of Canadian Financial Institutions: Proposals for Discussion" issued April 15, 1985.

The technical supplement presents additional information on the proposals in the discussion paper. It is intended to further the process of consultations with provinces, financial institutions, consumers and business leading to the development of draft legislation.

"The government has put forward some very important initiatives designed to promote competition among financial institutions, benefit consumers and ensure the protection of individual depositors and the soundness of the financial system," Mrs. McDougall said. She emphasized that the government's proposals are put forward for consultation.

The Minister noted that the deadline for interested parties to submit comments and suggestions to her has been extended to August 15, 1985. These should be addressed to: The Honourable Barbara McDougall, Minister of State for Finance, House of Commons, Ottawa, Ont., K1A 0A6.

For further information:
Allan Popoff
Director, Financial Institutions and Markets Division
(613) 992-4661

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, July 19, 1985

85-126

MEASURE TO PREVENT CARVE-OUT ARRANGEMENTS ANNOUNCED

The Honourable Michael Wilson, Minister of Finance, today made public draft amendments to the Income Tax Act which will directly affect the use of so-called "carve-out arrangements" as a means of avoiding tax, primarily in the oil and gas industry.

"Unless checked, these arrangements would result in a substantial loss of government revenues", the Minister said.

In a typical carve-out arrangement, a profitable oil and gas company transfers a temporary interest in a producing resource property to another corporation which has substantial accumulated losses or to a tax-exempt entity such as a pension fund. Normally, the arrangement is for a limited period and the oil and gas company retains effective control of the property. The effect of the transaction is to transfer resource income from the profitable corporation, where it would be subject to full tax, to the loss corporation or tax-exempt entity where it escapes tax.

Mr. Wilson said that under the draft amendments an amount equal to the income from a carved-out property will be included in the income of the oil and gas company that owned the resource property and transferred the interest in it.

The proposed amendments will apply to all existing and future carve-out arrangements. However, the amendments will not be effective until after October 31, 1985 in respect of property acquired before July 20, 1985.

.../2

The Minister indicated that the draft amendments seek to distinguish between carve-outs, which are essentially tax avoidance arrangements, and farm-outs which have long been a standard form of business arrangement for the exploration and development of resource properties. He emphasized that he wanted to ensure that the draft amendments do not interfere with bona fide farm-outs. The Minister added that he was releasing the draft amendments at this time to give the industry an opportunity to review the technical details so that any necessary changes could be incorporated in the final legislation. Taxpayers affected and other interested parties are invited to comment by mid-September.

The Minister also announced that tax-exempt entities will no longer be permitted to have the successor rules of the Income Tax Act apply to any disposition by them after today of any Canadian resource properties. An exception to this change will be provided for dispositions made pursuant to agreements in writing made before July 20, 1985.

For further information contact:

Al Katiya
Tax Policy and Legislation Branch
(613) 996-0597

or

Jane Meagher
Tax Counsel Division
(613) 995-5815

DRAFT LEGISLATION
CARVED-OUT PROPERTY

1. (1) Section 56 of the Income Tax Act is amended by adding thereto immediately after subsection 56(4), the following subsections:

Income from carved-out property

"(4.1) Notwithstanding subsection 4(4), where a person has carved-out income for a particular taxation year in respect of a carved-out property, an amount equal to that carved-out income shall be included in the income of the taxpayer from whom the person acquired the property for the taxpayer's taxation year in which the particular taxation year ends.

Limitation on carved-out income

(4.2) For the purposes of subsection (4.1), where a carved-out property was acquired by a person before July 20, 1985, the carved-out income of the person for a taxation year in respect of the property shall not include any income of the person that may reasonably be attributed to any part of the year that is before November 1, 1985.

Taxpayer from whom carved-out property acquired

(4.3) For the purposes of this section, a particular person shall be deemed to be a taxpayer from whom a carved-out property was acquired by another person if

(a) the taxpayer from whom the property was actually acquired has ceased to exist and the particular person has acquired or is entitled to acquire any right or interest which the taxpayer had in respect of the property; or

(b) he is a person who disposed of the property (alone or together with other property) as part of a series of transactions or events the purpose of which was to dispose of the property to that other person.

Date of acquisition of property

(4.4) For the purposes of this section, where the terms or conditions of an agreement pursuant to which a person acquired or holds a Canadian resource property are altered in such a way as to change

(a) the interest of the person in the income attributable to the property,

(b) the description of the property, or

(c) the period during which the property is to exist,

or the agreement is renewed, the property shall be deemed to have been acquired on the date the terms or conditions are altered or the agreement is renewed, as the case may be."

(2) Section 56 of the said Act is further amended by adding thereto, the following subsections:

Definitions

"(10) For the purposes of this section

"carved-out income"
"<u>revenu minier</u>"

"carved-out income" of a person for a taxation year in respect of a carved-out property means his income for the year attributable to the carved-out property computed on the assumption that in computing such income he was not allowed any deduction under section 20, subdivision e or section 104;

"carved-out property"
"<u>avoir minier restreint</u>"

"carved-out property" of a person means a property described in any of subparagraphs 66(15)(c)(i) to (vii) where

(a) the amount that the person is entitled to receive in respect of the property may reasonably be considered to be limited to a fixed amount or to an amount determinable by reference to a fixed quantity of production from a mineral resource or an accumulation of petroleum, natural gas or related hydrocarbons,

(b) the period of time during which his interest in the income attributable to the property may reasonably be expected to continue is

(i) where the property is a head lease or may reasonably be considered to derive from a head lease, less than the lesser of 10 years and the remainder of the term of the head lease, and

(ii) in any other case, less than 10 years,

(c) the interest of the person in the income attributable to the property, expressed as a percentage of production for any period, may reasonably be expected to be reduced substantially

(i) where the property is a head lease or may reasonably be considered to derive from a head lease, at any time before

(A) the expiry of a period of 10 years commencing when the property was acquired, or

(B) the expiry of the term of the head lease,

whichever occurs first, and

(ii) in any other case, at any time before the expiry of a period of 10 years commencing when the property was acquired, or

(d) another person has a right to acquire, at any time, the property or a portion thereof or a similar property from the person and it is reasonable to consider that one of the main reasons for the existence of the right was to reduce or postpone tax that would otherwise be payable under this Act,

but does not include a prescribed property;

"head lease"
"bail initial"

"head lease" means a contract under which

(a) Her Majesty in right of Canada or a province grants, or

(b) an owner in fee simple, other than Her Majesty in right of Canada or a province, grants for a period of not less than 10 years

any right, licence or privilege in respect of a mineral resource or petroleum, natural gas or related hydrocarbons; and

"term"
"durée"

"term" of a head lease includes all renewal periods in respect of the head lease.

Partnerships

(11) For the purposes of subsections (4.1) to (4.4), (10) and (12), a partnership shall be deemed to be a person or taxpayer, as the case may be, and its taxation year shall be deemed to be its fiscal period.

Reduction for C.E. and D.E. not a reduction of income

(12) For the purposes of paragraph (c) of the definition "carved-out property" in subsection (10), the interest of a person in the income attributable to a carved-out property shall be deemed not to

be reduced substantially to the extent that the reduction will be due to the fact that the agreement pursuant to which he acquired or holds the property provides that he is entitled to a specific percentage or portion or all of the production from the property until he has recovered reasonable compensation in respect of any Canadian exploration expense or Canadian development expense he has incurred in respect of the property and to a lower percentage or portion, or only a portion, thereafter."

(3) Subsections (1) and (2) are applicable after July 19, 1985.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, August 7, 1985

85-135

CLIFFORD CLARK VISITING ECONOMIST APPOINTED

The appointment of Dr. Douglas D. Purvis to the post of Clifford Clark Visiting Economist in the Department of Finance was announced today by F.W. Gorbet, acting Deputy Minister of Finance.

Dr. Purvis is from Queen's University where he is Professor of Economics and the Director of the John Deutsch Institute for the Study of Economic Policy.

The post honours the late Dr. Clifford Clark who served as Deputy Minister of Finance from 1932 until his death in 1952 and was chiefly responsible for developing the Department of Finance into a central agency for economic policy-making. He is remembered as one of the outstanding Canadian public servants of the modern era.

Occupants of the position provide the department with advice on emerging economic issues and take part in policy development at the highest level. They are recruited from the ranks of prominent Canadian professionals dealing with financial, monetary and economic areas in the business and academic communities. The assignments are arranged under the Interchange Canada program of the Public Service Commission.

The first to hold the post was Dr. Douglas D. Peters of Toronto who recently returned to the Toronto-Dominion Bank as Senior Vice-president and Chief Economist.

Ottawa, Canada K1A 0G5
613 992-1573

Born in Olds, Alberta, Dr. Purvis, 38, holds economic degrees from the Universities of Victoria and Western Ontario and was awarded his doctorate from the University of Chicago. He has lectured and published widely in the fields of macroeconomics and international finance.

Dr. Purvis was Visiting Economist at the Reserve Bank of Australia in 1975 and Visiting Scholar at Yale and Stockholm universities in 1976 and 1979 respectively. Most recently, he was invited to deliver the Harold Innis Lecture to the annual meeting of the Canadian Economics Association in June of this year.

Dr. Purvis is married and has two children.

He will continue to carry out some part-time duties at Queen's University during his term with the Department.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

IMMEDIATE RELEASE

Ottawa, August 29, 1985
85-143

NEW ACCOUNTING OF REVENUE COST OF SELECTIVE TAX MEASURES

The Honourable Michael Wilson, Minister of Finance, today made public the Account of the Cost of Selective Tax Measures. It identifies selective tax provisions that exist under the personal, corporate, and commodity tax systems and, where possible, provides estimates of the impact on federal revenues of each tax measure.

Selective tax measures take the form of exemptions, deductions, reduced tax rates, credits and tax deferrals. They are selective in nature in that they apply to specific groups of taxpayers or activities. They are used to fulfill important social and economic objectives. Examples in the personal income tax system include the marital and dependent child exemptions, the child tax credit, and the deductions for charitable donations and for contributions to registered retirement savings plans. Similarly, the accelerated capital cost allowance for manufacturing investments, the lower corporate tax rate for small businesses, the lower sales tax rate on building materials and the sales tax exemptions for a wide range of goods are other examples of selective tax measures.

In releasing the document, Mr. Wilson said that "a full accounting of the costs of all government measures is essential for effective fiscal management." The Minister emphasized that the account should not be considered simply as a list of tax loopholes or areas for tax reform. "Rather, it is an accounting of the cost to the federal government of these tax measures."

Canada

Ottawa, Canada K1A 0G5
613 992-1573

"Nevertheless, I am committed to an ongoing review of these selective tax measures," the Minister noted. "Where tax incentives have been found to be ineffective, they have been withdrawn or redesigned. For example, the May 23 budget eliminated the scientific research tax credit, replacing it with improved refunding of the basic investment tax credit for scientific research and development. Similarly, proposals were introduced cancelling certain tax shelters and changing the income attribution rules to prevent income splitting among family members."

Mr. Wilson added that the government will continue to review tax provisions to determine if modifications are desirable in light of changing economic conditions and priorities. He noted for example that the May 23 budget also included a discussion paper on the restructuring of the corporate tax system which considered the replacement of certain selective tax measures with a system of uniform but lower corporate tax rates.

"The government is committed to a rigorous review of all of its programs and the accurate measurement of their cost," the Minister said. "This new account is an important element of this review."

This account updates similar information previously provided in 1979 and 1980. Although the basic approach used to identify selective tax measures is unchanged from the 1979 and 1980 accounts, there are some noteworthy revisions.

"Significant improvements in estimating revenue costs have resulted in more accurate figures for a number of the items in the account," Mr. Wilson said. "We also have a more comprehensive analysis of the tax measures available to corporations, including for the first time a breakdown of the tax revenue impact of these provisions by industry sector."

The Minister commented that since 1980, the Department has been successful in developing cost estimates for a number of items for which values were not previously available. "Efforts are continuing to assess the revenue impact of more items contained in the account without placing undue demands on taxpayers for additional information on their tax returns."

The Minister said there remain a number of items for which the data available do not permit a dependable estimate, and costs are not shown. These are mainly deferrals or exclusions that are not identified separately on tax forms.

He added that although estimates are not available for certain items, it is important to identify those provisions in the document to ensure a full accounting of all selective measures.

For further information, contact:

Brian Wurts
Tax Policy and Legislation Branch
(613) 992-3113

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Immediate release

Ottawa, September 1, 1985

85-144

CANADIAN COMMERCIAL BANK AND NORTHLAND BANK

The Honourable Barbara McDougall, Minister of State (Finance) announced today that the Inspector General of Banks advised the Minister of Finance and herself that the Canadian Commercial Bank and Northland Bank were no longer viable and they could not pay their liabilities as they came due. Earlier in the day the Inspector General had reported to the Governor of the Bank of Canada that these banks were no longer viable. Consequently the Bank of Canada has ceased to provide liquidity support to the two banks. The Minister of Finance has therefore taken action to appoint curators to both banks.

Minister McDougall said: "In accordance with provisions of the Bank Act curators have been appointed at 7 p.m. EDT, Sunday, September 1, 1985 to take over the management of the banks' affairs. The curators and employees of the banks will be completing preparations for opening on Wednesday, September 4th".

"The problems encountered by the Canadian Commercial Bank and Northland Bank each reflect particular and unique circumstances", said the Minister. "It is clearly not in the best interest of our financial system as a whole to allow institutions to continue to function after they have ceased to be viable operations. The Canadian banking system remains among the most stable in the world. These two banks comprise less than 1% of the total assets of the Canadian banking system."

.../2

Canadian Commercial Bank

In March of this year a joint private sector and federal and provincial government support package was provided to the Canadian Commercial Bank. In light of the advice given to the Minister of Finance by the Inspector General of Banks and the actions taken by the Bank of Canada today, no further support to the Canadian Commercial Bank is possible. A court order will be sought shortly under the Winding Up Act to liquidate the Canadian Commercial Bank.

Northland Bank

As to Northland Bank, the Ministers are prepared to accommodate the belief of the Board of Directors of the bank that, given the circumstances, the business of Northland might be preserved through a reorganization or amalgamation. Consequently, it was agreed that the Northland Bank will have a limited time period to seek to reorganize its affairs or amalgate with another financial institution. Northland has stated that it will work with the curator and will inititate attempts to arrange such a reorganization or amalgamation.

Mrs. McDougall indicated that the Government is prepared to work with Northland to try to effect a reorganization or amalgamation. This is consistent with the Government's recognition of the useful role played by regional financial institutions.

Mrs. McDougall stated: "The government is sensitive to the fact that the appointments of curators will inconvenience customers of the two banks. Every effort will be made by the curators, working with the Bank of Canada and other government agencies, to minimize any inconvenience."

.../3

Mrs. McDougall affirmed: "The government's first priority remains the depositors of the banks".

It is legally necessary to launch immediately a winding up application for each bank. In the case of Canadian Commercial Bank, it will be proceeded with as quickly as possible. In the case of Northland Bank the court will be asked to postpone the appointment of a provisional liquidator to allow time to work out a reorganization or amalgamation. The legal requirements necessary to allow CDIC to make payments to insured depositors will, however, be taken as quickly as possible.

In accordance with the Canada Deposit Insurance Corporation (CDIC) Act, the deposits insured by CDIC will be reimbursed to the maximum limit of $60,000 as soon as possible. If the relevant court orders are delayed, CDIC will endeavour to make funds available in modest amounts to those insured depositors who find themselves facing serious and immediate financial hardship.

Furthermore, Mrs. McDougall said: "The government will seek the necessary parliamentary authority in order to compensate uninsured depositors for amounts outstanding today. Payments will be made over a period of time and will commence only after the necessary legislation enabling the Government to proceed has been approved by Parliament."

Outstanding Bank of Canada advances to the Canadian Commercial Bank total $1.3 billion. These advances are fully secured and will be repaid from proceeds of the disposition of the assets. Outstanding Bank of Canada advances to the Northland Bank, which are also fully secured, total $510 million.

The Minister of State reaffirmed that the government is committed to moving forward with reforms to the supervisory system affecting Canadian financial institutions. Proposals to improve the federal supervisory structure have been put forward in discussion papers released by the government in April and June of this year, and in a private sector task force report on the Canada Deposit

Insurance Corporation. These proposals are already under review by a Parliamentary Committee. Strengthening the supervisory structure remains the government's first commitment in the review of financial institution legislation.

Shortly after Parliament resumes, the government will introduce legislation to enhance the protection of depositors by strengthening the regulatory powers of federal supervisory authorities. This legislation will enable federal regulators to place realistic values on real estate held by federally-regulated financial institutions for the purpose of meeting solvency and liquidity tests. The legislation will empower the Minister of Finance to prevent the transfer of ownership of federally-incorporated financial institutions in cases where the transfer is deemed to be against the public interest, and will enable federal supervisors to take earlier action in cases where federally-regulated financial institutions are engaging in activities that might threaten their future viability.

Mrs. McDougall also announced that the government will be asking Parliament to establish a joint committee of the Senate and the House of Commons to examine matters relevant to the Canadian Commercial Bank and Northland Bank.

The Minister of State, accompanied by the Inspector General of Banks, Mr. William Kennett, and the Governor of the Bank of Canada, Mr. Gerald Bouey, will hold a press conference at the National Press Theatre, 150 Wellington Street, at 10 a.m., Tuesday, September 3rd.

Department of Finance
Canada

Ministère des Finances
Canada

Office of the
Inspector General of Banks

Bureau de
l'Inspecteur général des banques

Ottawa, Canada
K1A 0G5

Immediate release

Ottawa, Sunday, September 1, 1985

CANADIAN COMMERCIAL BANK AND NORTHLAND BANK

William A. Kennett, Inspector General of Banks, disclosed today that he has advised the Minister of State for Finance and reported to the Minister of Finance that in his opinion the Canadian Commercial Bank and the Northland Bank were unable to meet their liabilities as they became due. This decision could not be avoided following the conclusion of a detailed review of both banks and in recognition that the banks were failing to maintain their own funding. Previously, the Inspector General had reported to the Governor of the Bank of Canada that these banks were no longer viable. As a consequence, the Bank of Canada ceased to provide liquidity to these banks.

Accordingly, the Minister of Finance has today appointed curators under subsection 278(2) of the Bank Act to assume supervision of the business and affairs of the two banks. Price Waterhouse Limited has been appointed as curator of the Canadian Commercial Bank and Touche Ross Limited as curator of the Northland Bank.

The curators will be working during the long weekend and on Tuesday with bank employees. The offices of both banks will reopen on Wednesday, September 4, 1985.

Applications will be made as soon as possible to the courts in Alberta and Manitoba for orders which will permit CDIC to make payments to insured depositors. With the cooperation of the banks involved, it is hoped that these orders can be obtained quickly. Mr. Kennett stressed that every effort will be made to minimize disruption to the depositors and borrowers of these banks.

.../2

Insured depositors will be receiving within a week a letter from Canada Deposit Insurance Corporation (CDIC) informing them of the particulars of repayment of their deposits, subject to the insured limit of $60,000. For compassionate and hardship cases CDIC has agreed to review specific requests for funds from insured depositors.

With respect to uninsured depositors the Minister of State (Finance) has announced that the government will seek the necessary parliamentary authority in order to compensate uninsured depositors for amounts outstanding today. Payments will be made over a period of time and will commence only after the necessary legislation enabling the Government to proceed has been approved by Parliament.

The conditions of these banks are unique and reflect the unusual concentration of business in the commercial real estate market in Alberta which continues to be depressed. The Inspector General is confident that there are no other banks facing similar difficulties.

The assets of the Canadian Commercial Bank total $2.7 billion and for the Northland Bank total $1.4 billion, most of which are in Canada. The combined assets of these two institutions represent just under one per cent of total assets of the Canadian Banking system.

Bank borrowers, clients and depositors wishing further information this weekend may call collect to the curator at the following number... 403-237-7212.

Department of Finance
Canada

Ministère des Finances
Canada

Office of the
Inspector General of Banks

Bureau de
l'Inspecteur général des banques

Ottawa, Canada
K1A 0G5

Background to Government Actions on Canadian Commercial Bank and Northland Bank

Pursuant to Section 278 of the Bank Act, the Minister of Finance has appointed curators for the Canadian Commercial Bank and Northland Bank. Price Waterhouse Limited is the appointed Curator of Canadian Commercial Bank and Touche Ross Limited Curator of Northland Bank.

The powers and duties of the curator, as set out in Section 279 of the Bank Act, are:

Powers and duties of curator	279(1)	A curator shall assume supervision of the business and affairs of the Bank in respect of which he is appointed and has generally all powers and shall take all steps and do all things necessary or expedient to protect the rights and interests of the creditors and shareholders of the Bank and to conserve and ensure the proper disposition, according to law, of the assets of the Bank; and, for the purposes of this section, he is entitled to free and full access to all books, accounts, cash, securities, documents and vouchers of the Bank and any security held by the Bank.

The curators will be on the premises of the Banks this weekend to discharge their duties.

The Directors, Officers and employees of the Banks are required by the Bank Act to "give and afford to a curator appointed in respect thereof all such information and assistance as he requires in the discharge of his duties".

.../2

The Offices of the Banks will remain closed on Tuesday, September 3 1985. They will reopen on Wednesday, September 4 1985.

The curators will remain in charge of the affairs of the Banks until they are appointed as liquidators pursuant to the Winding-Up Act.

Canadian Commercial Bank (CCB)

The Government intends to ask the court on Tuesday, September 10, 1985 to appoint a provisional liquidator for the CCB and to authorize payments to insured depositors by the Canada Deposit Insurance Corporation (CDIC).

The time required for the appointment of the provisional liquidator will depend on the court and any representations which might be made by the Bank.

Deposit accounts will be frozen during this period.

Customers whose deposits are insured by the Canada Deposit Insurance Corporation will remain fully protected up to $60,000. Once a provisional liquidator is appointed, CDIC will payout such depositors as soon as possible.

If there is a delay in the necessary court order, the CDIC will make payments to individual depositors in compassionate and hardship cases in moderate amounts.

Insured depositors will be receiving within the next week a letter from CDIC informing them of the particulars of repayment of their deposit subject to the insured limit.

The Government indicated that it intends to introduce legislation which will authorize it to pay to those depositors of the Bank uninsured by the Canada Deposit Insurance Corporation the amount of their deposits on September 1, 1985. Such payments will be made over a period of time following passage of the legislation.

.../3

Northland (NLD)

The Government is prepared to provide a limited amount of time for the Northland Bank to seek to amalgamate with another bank or to reorganize. While this possibility is being explored, the deposits of the Bank will remain frozen and, for legal reasons, an application under the Winding-Up Act will be made. If an amalgamation or reorganization is not possible within a short period of time, the Government would proceed to ask the courts for the liquidation of the Bank. The procedure would then be similar to that described for CCB.

The Bank could either remain under a curatorship while these possibilities are being explored or an order might be requested which would freeze deposits but hold the Winding Up Order in abeyance. This Order would enable CDIC to pay insured depositors.

If an amalgamation or reorganization is successful, the curator could be removed or the court requested to reconsider its previous order.

Borrowing Customers

In addition to its concern for the depositors of both Banks, the Government has a concern for the borrowing customers whose businesses are being disrupted by their inability to conduct their banking business. Accordingly, arrangements are being made with the Bank of Canada which would enable customers to draw certain funds from the Banks. Such drawings would be subject to the approval of the curator, or liquidator, and made according to good commercial practice.

It is anticipated that all offices of the Banks will be closed Tuesday, September 3 1985. Offices will be open on Wednesday September 4, 1985 so that the curators or liquidators charged with the Banks' affairs may deal with borrowing customers. Deposits will remain frozen until a later date.

Background to Problems of Canadian Commerical Bank and Northland Bank

Canadian Commercial Bank and Northland Bank were started in the mid-1970's and commenced business in Western Canada. Both Banks grew rapidly from inception. Factors in this growth were their Western locus and the boom in the economy of that part of the country which extended through 1981. A substantial proportion of the portfolios of both Banks is loans secured by real estate. This reflects the fact that real estate was one of the fast-growing sectors of the Western Canadian economy and a ready source of growth for the Banks. As a result, the portfolios of both Banks had a greater regional and real estate concentration than the more balanced and diversified portfolios of long established banks operating across the country.

The recession was particularly severe in Western Canada and in real estate. All banks with exposure to these areas suffered and the CCB and Northland suffered proportionately more due to their greater concentrations.

The CCB's need for a support package in March 1985 resulted in loss of depositor confidence in both Banks, forcing them to borrow very substantial amounts from the Bank of Canada. A rigorous review of both Banks was undertaken by the Office of the Inspector General of Banks during the summer.

ANK OF CANADA
press statement

BANQUE DU CANADA
communiqué

For Immediate release

Ottawa, September 1, 1985.

The Governor of the Bank of Canada, Mr. Gerald K. Bouey, said today that he has received notification from the Inspector General of Banks that the Canadian Commercial Bank and the Northland Bank can no longer be considered viable operations. The Bank of Canada has therefore concluded that there is no longer a basis for further liquidity support to these two banks and accordingly is ceasing immediately to provide advances to them. The Bank of Canada has been providing considerable liquidity to both banks in the form of fully secured advances; as of August 30th the advances outstanding to the Canadian Commercial Bank amounted to $1,316 million and advances outstanding to the Northland Bank amounted to $510 million.

The Governor stated that the difficulties experienced by these two banks do not reflect on the soundness of the rest of the Canadian banking system. He also reiterated that the Bank of Canada stands ready as always to provide liquidity if requested for any Canadian bank.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Ottawa, September 4, 1985

85-148

IMMEDIATE RELEASE

LIQUIDATOR FOR CANADIAN COMMERCIAL BANK NAMED

The Honourable Barbara McDougall, Minister of State, Finance, announced that Price Waterhouse Limited has been provisionally appointed liquidator of the Canadian Commercial Bank under an order granted September 3 by the Court of Queen's Bench of Alberta in Edmonton.

"The earlier than expected appointment of the provisional liquidator will enable the Canada Deposit Insurance Corporation (CDIC) to repay insured depositors before the end of this month," the Minister said.

The court order was obtained in an application brought by the CDIC for the winding up of the bank. Price Waterhouse Limited was appointed curator of the bank September 1. Shareholders and creditors of the bank will meet in October to provide their views on appointment of a permanent liquidator.

CDIC insures most depositors to a maximum of $60,000. The Minister previously announced that Parliament will be asked to authorize the funds to compensate uninsured depositors for amounts outstanding as of September 1. These payments would be made over a period of time.

For further information contact:
Canada Deposit Insurance Corporation
(613) 996-2081

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate Release

Ottawa, September 6, 1985

85-149

CONSULTATIONS LEAD TO SALES TAX EXEMPTION FOR CERTAIN HEALTH GOODS

The Honourable Michael Wilson, Minister of Finance, today announced the government's intention to ensure that an exemption from the federal sales tax will continue to apply to certain medical supplies required by persons with life-threatening illnesses. Consistent with this principle, the government will also extend the exemption to some medical supplies which were subject to tax over the years prior to the May 23 budget.

Under the budget, the Minister ended the existing sales tax exemptions for health goods such as medicated creams, lotions, shampoos, soaps and bandages. However, the exemption continued to apply to drugs identified under certain schedules to the Food and Drugs Act and Regulations and the Narcotic Control Act, and to drugs purchased by hospitals.

During post-budget consultations with the Canadian Wholesale Drug Association, the Pharmaceutical Manufacturers Association, the Proprietary Association of Canada and the Canadian Diabetes Association, it was pointed out that some drugs and supplies used by patients to treat certain life-threatening illnesses such as diabetes, cardiovascular disease and respiratory ailments, are not included in these schedules of exempt drugs. Mr. Wilson stated that "all the most important medications required to treat these serious illnesses will continue to qualify for exemption from federal sales tax".

The Minister said this will mean the continuation of sales tax exemption for products such as insulin syringes and infusion pumps, nitroglycerine and medical oxygen and certain other drugs for heart and respiratory diseases.

Mr. Wilson added: "During discussions with the Canadian Diabetes Association, it came to their attention that some other products used by many diabetics on a daily basis have been taxable for many years. In this regard, I am pleased to announce that, effective tomorrow, the federal sales tax will no longer apply to these products -- blood glucose test strips, urine test sticks and blood glucose monitors, and I will introduce amendments in Parliament to effect that change."

He said that, to keep tax law abreast of changing circumstances, there will be ongoing consultations with officials of Health and Welfare to identify other important drugs and supplies that are purchased by patients for their own use in treating life-threatening illnesses. This process will permit early consideration of the extension of tax exemption to new products in such circumstances.

Attached is a list of the drugs and supplies which will qualify for exemption from federal sales tax.

For further reference, contact:

Gordon Lee
Tax Analysis and Commodity Tax Division
(613) 995-9981

APPENDIX

Diabetic supplies:

Insulin syringes
Insulin infusion pumps
*Blood glucose test strips
*Urine sugar test sticks
*Urine ketone test sticks
*Blood glucose monitors

Cardiovascular drugs:

Digoxin
Digitoxin
Deslanoside
Erythrityl Tetranitrate
Isosorbide Dinitrate
Nitroglycerine
Prenylamine
Quinidine and its salts

Respiratory drugs:

Aminophylline
Oxtriphylline
Theophylline
Theophylline Calcium Aminoacetate
Theophylline Sodium Aminoacetate
Medical Oxygen

*Previously subject to federal sales tax.

Department of Finance Canada

Ministère des Finances Canada

Release

Communiqué

Immediate Release

Ottawa, September 13, 1985

85-152

GRANDFATHERING PROVISION FOR CARVE-OUTS ANNOUNCED

The Honourable Michael Wilson, Minister of Finance, today announced that, following consultations requested by him with industry representatives, the amendments proposed to the Income Tax Act to deal with carve-out arrangements announced by him on July 19, 1985, will contain a grandfathering provision which would exempt certain completed arrangements from the application of the new rules.

Under the grandfathering provision, the new rules relating to carve-out arrangements will not apply to property disposed of to an identified party pursuant to an agreement in writing, entered into by any person with the vendor of the property before July 20, 1985, for the sale of the property to that party.

The Minister stated that there were a number of companies affected by the proposed amendments, as originally announced, that could not terminate their contractual arrangements by October 31, 1985. "My announcement today will ensure that the proposed carve-out legislation will not have an unintended effect on these companies," the Minister said.

The Minister also noted that consultations are continuing regarding other aspects of the proposed carve-out amendments, such as their application to traditional farm-out arrangements.

For further information contact:

A. Katiya
Tax Policy and Legislation Branch
(613) 996-0597

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Immediate release

Ottawa, September 16, 1985

85-153

DRAFT AMENDMENTS AND REGULATIONS TO PGRT ACT

Finance Minister Michael Wilson released today draft legislation and regulations relating to certain changes to the Petroleum and Gas Revenue Tax (PGRT) that were announced with the Western Accord.

The draft legislation follows the Ways and Means Motion tabled in the House of Commons with the May 23 Budget and sets out the changes necessary to define production which will be exempt from the PGRT. Taxpayers affected and other interested parties are invited to comment by October 15, 1985.

"The Western Energy Accord negotiated by my colleague the Honourable Pat Carney, Minister of Energy, Mines and Resources, has already led to strong signs of revival in the petroleum industry," Mr. Wilson said. "This historic agreement will free up one of our most dynamic industries to create economic growth, new oil and gas security and job opportunities across Canada."

The Minister pointed out that new production of oil and natural gas became exempt from the PGRT on April 1, 1985. All production will be exempt by January 1989, fulfilling the commitment made prior to the 1984 election to eliminate this tax.

The Minister indicated that detailed legislation covering other changes to the PGRT that take effect on January 1, 1986, will be made available later. These other changes include a new $10,000 deduction for individuals, changes to withholding provisions and the PGRT rate phase-down schedule. Information on the PGRT offset provision was released on April 30. Ways and Means Motions for all these items were also tabled with the Budget.

Canada

Ottawa, Canada K1A 0G5
613 992-1573

.../2

The Honourable Pat Carney will soon be issuing additional details on the administration of the certification process to be carried out by her Department for these new PGRT provisions.

For further information, please contact:

W. Toms
Tax Policy and Legislation
992-1541

Al Katiya
Tax Policy and Legislation
996-0597

<u>EXEMPT OIL AND GAS PRODUCTION</u>

<u>DRAFT LEGISLATION</u>

1. (1) Subsection 79(1) of the <u>Petroleum and Gas Revenue Tax Act</u> is amended by adding thereto, in alphabetical order within the subsection, the following definitions:

"approved recovery project"
"installation approuvée de récupération"

""approved recovery project" means

(a) a project certified in writing by the Minister of Energy, Mines and Resources, to have commenced operations after March 31, 1985 and to be a waterflood or a major expansion to a waterflood,

(b) a prescribed project certified in writing by the Minister of Energy, Mines and Resources to have commenced operations after 1982, or

(c) a project certified in writing by the Minister of Finance and the Minister of Energy, Mines and Resources as a major energy project that commenced operations after March 31, 1985;

"deepened oil or gas well"
"puits approfondi de pétrole ou de gaz"

"deepened oil or gas well" means an oil or gas well that after

(a) being capable of producing petroleum or gas from an accummulation of petroleum or gas, or

(b) being drilled for the purpose of producing petroleum or gas from an accummulation of petroleum or gas and having been abandoned,

is deepened by further drilling commenced after March 31, 1985 for the purpose of producing petroleum or gas from a different accummulation of petroleum or gas;

"exempt percentage"
"pourcentage d'exonération"

"exempt percentage" for a period in respect of an approved recovery project, means a percentage approved in writing by the Minister of Energy, Mines and Resources for that period in respect of the project;

"new deep production"

"production nouvelle en profondeur"

"new deep production" means that part of the production from a deepened oil or gas well that is directly attributable to the deepening;"

(2) Section 79 of the said Act is further amended by adding thereto the following subsection:

Certification of prescribed project

"(11) The Minister of Energy, Mines and Resources shall not certify

(a) a project for the purposes of paragraph (a) of the definition "approved recovery project" in subsection (1) unless a request for the certification is filed with the Minister of Energy, Mines and Resources within 180 days after the project commenced operations; or

(b) a prescribed project to have commenced operations after 1982 for the purposes of paragraph (b) of the definition "approved recovery

project" in subsection (1) unless a joint election made under subsection 82(9) in respect of the project has been filed with the Minister in accordance with subsection 82(10);"

(3) Subsections (1) and (2) are applicable to taxation years ending after 1982 except that a request for certification referred to in paragraph 79(11)(a) of the said Act, as enacted by subsection (2), that is filed with the Minister of Energy, Mines and Resources on or before the day that is 90 days after the day this Act is assented to shall be deemed to have been filed with that Minister on or before the day on or before which the request is required under paragraph 79(11)(a) of the said Act, as enacted by subsection (2), to be filed with that Minister.

2. (1) All that portion of paragraph 82(8)(a) of the said Act preceding subparagraph (i) thereof is repealed and the following substituted therefor:

"(a) subject to subsection (9), there shall be deducted in respect of a particular prescribed project, the amount equal to the lesser of"

(2) Section 82 of the said Act is further amended by adding thereto the following subsections:

Election respecting deductions

"(9) Where all taxpayers who

(a) have made or incurred prescribed exploration and development expenses,

(b) have acquired prescribed enhanced recovery equipment, or

(c) are obligated to make or incur prescribed exploration and development expenses or to acquire prescribed enhanced recovery equipment,

in respect of a prescribed project, jointly make a valid election not to make any deductions under paragraph (8)(a) in respect of the project, deductions shall not be made under that paragraph in respect of the project in computing the income of any taxpayer for any taxation year.

Filing of election

(10) An election referred to in subsection (9) in respect of a prescribed project is not valid unless it is made in prescribed form and is filed with the Minister on or before the earliest day

on or before which any taxpayer who is required to join in the election is required under section 85 to file a return of production revenue for the taxation year in which the taxpayer first

(a) makes or incurs prescribed exploration and development expenses, or

(b) acquires prescribed enhanced recovery equipment,

in respect of the project.

Election binding on all interests

(11) Where an election in respect of a prescribed project is filed in accordance with subsection (10), any taxpayer who at any time thereafter

(a) makes or incurs prescribed exploration and development expenses, or

(b) acquires prescribed enhanced recovery equipment,

in respect of the project shall be deemed to have joined in the election and is bound by it."

(3) Subsections (1) and (2) are applicable to taxation years ending after 1982 except that any election made under subsection 82(9) of the said Act, as enacted by subsection (2), in respect of a prescribed project that is filed with the Minister on or before the day that is 90 days after the day this Act is assented to shall be deemed to have been filed with the Minister on or before the day on or before which such an election is required under subsection 82(10) of the said Act, as enacted by subsection (2), to be filed with the Minister.

3. (1) Section 83 of the said Act is renumbered as subsection 83(1) and is further amended by striking out the word "or" at the end of paragraph (d) thereof and by adding thereto the following paragraphs:

"(f) income or loss from the production of petroleum or gas from a prescribed oil or gas well;

(g) income or loss from the new deep production of petroleum or gas from a deepened oil or gas well (other than an oil or gas well located in a prescribed project or an approved recovery project);

(h) the portion of the income or loss that may reasonably be attributed to the production in a period after March 31, 1985 of petroleum or gas from an

approved recovery project that is the exempt percentage of that income or loss for that period in respect of that project;

(i) the portion of the amount received or receivable as a production royalty or resource royalty, computed by reference to the amount or value of production in a period after 1985 of petroleum or gas from an approved recovery project, that is the exempt percentage of that amount for that period in respect of that project;

(j) an amount received or receivable as a production royalty or resource royalty computed by reference to the amount or value of production of petroleum or gas after 1985 from a prescribed oil or gas well; or

(k) the portion of the amount received or receivable as a production royalty or resource royalty, computed by reference to the amount or value of production after 1985 of petroleum or gas from a deepened oil or gas well (other than an oil or gas well located in a prescribed project or an approved recovery project) that is attributable to the new deep production from the well."

(2) Section 83 of the said Act is further amended by adding thereto the following subsection:

Separate projects included in prescribed project

"(2) For the purposes of

(a) the approval referred to in the definition "exempt percentage" in subsection 79(1), and

(b) paragraphs (1)(h) and (i) and 99(7)(a)

where a particular prescribed project that is an approved recovery project referred to in paragraph (b) of the definition "approved recovery project" in subsection 79(1) includes any other project that, but for the existence of the particular project, would be a separate prescribed project, each such project shall be deemed to be a separate approved recovery project and income or loss from each such separate approved recovery project shall not include income or loss from the production of petroleum or gas not attributed to that separate project."

(3) Paragraphs 83(1)(f) to (h) of the said Act, as enacted by subsection (1), are applicable after March 31, 1985.

(4) Paragraphs 83(1)(i) to (k) of the said Act, as enacted by subsection (1), are applicable after 1985.

(5) Subsection (2) is applicable to taxation years ending after 1982.

4. (1) Section 99 of the said Act is amended by adding thereto the following subsections:

Where no tax is payable

"(7) Notwithstanding subsection (1), no tax shall be payable under this Division by a taxpayer on

(a) any portion of the amount received by the taxpayer as a production royalty or resource royalty, computed by reference to the amount or value of production in a period after March 31, 1985 from an approved recovery project, that is the exempt percentage of the amount for that period in respect of that project;

(b) any portion of the amount received by the taxpayer as a production royalty or resource royalty, computed by reference to the amount or value of production of

petroleum or gas from a deepened oil or gas well that is attributable to the new deep production from the well; or

(c) an amount received by the taxpayer as a production royalty or resource royalty computed by reference to the amount or value of production from a prescribed oil or gas well."

(2) Subsection (1) is applicable in respect of amounts received after March 31, 1985.

DRAFT REGULATION

1. The Petroleum and Gas Revenue Tax Regulations are amended by adding thereto, immediately after section 5.4 thereof, the following heading and section:

"Prescribed Oil or Gas Wells

5.5 For the purposes of the Act, a prescribed oil or gas well is an oil or gas well the drilling of which commenced after March 31, 1985, but does not include

(a) a well located in a prescribed project described in subsection 5.2(1); or

(b) a well located in a project described in paragraph (a) or (c) of the definition "approved recovery project" in subsection 79(1) of the Act."

2. Section (1) is applicable to taxation years ending after March 31, 1985.

EXPLANATORY NOTES

AMENDMENTS TO THE PETROLEUM AND GAS REVENUE TAX ACT (PGRT ACT)

PGRT ACT 79(1)

Section 79 of the Act sets out the definitions of various words and expressions used in the PGRT Act. The amendments to this section add four new definitions namely, "approved recovery project", "deepened oil or gas well", "exempt percentage", and "new deep production".

The new definition "approved recovery project" is relevant for the purposes of the special PGRT exemptions provided in new paragraphs 83(1)(h), 83(1)(i) and 99(7)(a) of the Act. These paragraphs treat a portion - defined as an "exempt percentage" - of income or loss or royalties from the production from an approved recovery project to be exempt from PGRT. Three types of projects may qualify as approved recovery projects. These are:

(a) a waterflood or a major expansion to a waterflood project that commenced operations after March 31, 1985;

(b) an enhanced oil recovery project commencing operations after 1982 that is a prescribed project as defined in section 5.2 of the PGRT Regulations; or

(c) a major energy project that commenced operations after March 31, 1985.

The Minister of Energy, Mines and Resources has been given authority to certify the type and the date of the commencement of operations of a project. The Minister of Finance and the Minister of Energy, Mines and Resources are authorized to jointly certify a major energy project.

New paragraphs 83(1)(g), 83(1)(k) and 99(7)(b) provide an exemption from PGRT for the "new deep production" from a "deepened oil or gas well". The term "deepened oil or gas well" means a well that is capable of producing or is abandoned and the deepening of which commenced after March 31, 1985 for the purpose of producing petroleum or gas from a different accumulation of petroleum or gas. The amendment to section 79 defines "new deep production" to be that part of production from a deepened well that is directly attributable to the deepening.

The term "exempt percentage" is referred to in new paragraphs 83(1)(h), (i) and 99(7)(a). The definition allows the Minister of Energy, Mines and Resources to approve an exempt percentage for an approved recovery project during a particular period. Where a particular project consists of more than two projects, each such project will be given a separate exempt percentage pursuant to new subsection 83(2). The exempt percentage is relevant for the purposes of determining a taxpayer's production income or royalties from an approved recovery project that is exempt from PGRT.

The new definitions are applicable to taxation years ending after 1982.

PGRT 79(11)

Currently, the working interest holders of a prescribed enhanced oil recovery (EOR) project are allowed to deduct capital expenditures collectively known as cumulative enhanced recovery capital expenses (CERCE) against their production revenue from the project. This benefit will continue to be available for both the old EOR projects which commenced operations after 1982 and new EOR projects. However, the participants of these projects will have the option to have their projects designated as an "approved recovery project", in which case an exempt percentage of the income or loss or royalties from the production

of petroleum after March 31, 1985 from the project will be exempt from PGRT. However, where this option is chosen, all participants must forego their past and future CERCE deductions in respect of the project. To qualify as an approved recovery project, all participants described in subsection 82(9) in a prescribed EOR project must file a joint election pursuant to that new subsection. New subsection 79(11) requires the Minister of Energy, Mines and Resources to certify the project only where a joint election has been filed and thereby ensures that project participants will not be able to both claim CERCE and also obtain an exempt percentage in respect of the same project. A request for certification for a waterflood project must be filed within the latter of 180 days following the date of commencement of operations or 90 days after the legislation receives Royal Assent. This amendment is applicable to taxation years ending after 1982.

PGRT ACT 82(8)

Subsection 82(8) of the Act provides for a deduction from income of any eligible capital expenditures - known as CERCE - in respect of a prescribed enhanced oil recovery (EOR) project. Paragraph 82(8)(a) currently requires a taxpayer to deduct, in computing his production revenue for a taxation year, the lesser of the balance in his CERCE account in respect of the project and his eligible income for the year from the project. Under the proposed system, taxpayers will be allowed to choose either a deduction in respect of CERCE or an exclusion of the exempt percentage in respect of the project. The amendments to paragraph 82(8)(a) ensure that no deduction in respect of CERCE will be allowed where an election is filed in respect of the project in accordance with new subsection 82(10) to have the new exemption apply. This amendment is applicable to taxation years ending after 1982.

PGRT ACT 82(9) TO (11)

New subsection 82(9) permits all the participants in a prescribed enhanced oil recovery (EOR) project who have incurred or who are obligated to incur eligible capital expenditures (CERCE) in respect of a project to jointly elect to not deduct these expenses. All taxpayers with eligible capital expenditures must join in the election if the election is to be valid. This new paragraph effectively allows all working interests in a project commencing operations after December 31, 1982 to obtain certification of the project as an "approved recovery project" and to obtain an exclusion for the "exempt percentage" related to production after March 31, 1985.

New subsection 82(10) provides that the election must be filed on or before the earliest day on or before which any taxpayer who is a party to the election is required to file his return of production revenue for the year in which he incurs eligible capital expenditures in respect of that project. However, a special coming-into-force provision allows the election to be filed within 90 days following Royal Assent to the enacting legislation.

New subsection 82(11) ensures that all taxpayers who have acquired an interest in a project in respect of which an election under subsection 82(9) has been made are bound by the election. Therefore, a new participant in a certified project will not be entitled to deduct any CERCE under subsection 82(8) but will instead be allowed the exclusion for the exempt percentage of the income from the project.

New subsections 82(9) to (11) are applicable to taxation years ending after 1982.

PGRT ACT 83(1) AND (2)

Section 83 of the Act sets out the sources of income or loss or royalties that are not to be included or that may be deducted in computing a taxpayer's production income. For example, paragraphs (a) and (b) exempt any income or loss from the transportation of oil or gas from PGRT. The amendments to this section are designed to implement the exemption for new oil and gas production after April 1, 1985 as announced in the Western Accord. Under the Accord, no PGRT will be payable on the production of petroleum or gas from an oil or gas well, the drilling of which commenced after March 31, 1985. Similarly, incremental production revenue from new waterflood and major energy projects will be exempt from PGRT. The incremental production from enhanced oil recovery (EOR) projects will also qualify for the PGRT exemption provided all the key participants of the project elect not to deduct eligible capital expenditures (CERCE) in respect of the project in computing their production revenue for any taxation year under the Act. Old EOR projects that commenced operations after December 31, 1982 will qualify for this option, provided the taxpayers elect and refile their 1983 to 1985 returns to eliminate any deduction they may have claimed in respect of CERCE.

The amendments to subsection 83(1) introduce the exemption for new oil and gas production as described above. For example, new paragraph (f) exempts from PGRT the income or loss from the production of petroleum or gas from a prescribed oil or gas well. A prescribed oil or gas well is defined by new section 5.5 of the PGRT Regulations and generally means a well the drilling of which commenced after March 31, 1985.

New paragraph (g) together with the new definition of "new deep production" ensure that the income or loss from the incremental production brought about by the deepening of a well after March 31, 1985 already in existence on that date is exempt from PGRT, unless the well

is located in a prescribed enhanced oil recovery project or in an approved recovery project. The wells located in these projects either enjoy the benefit of exemptions in respect of incremental production or CERCE deductions.

Paragraph (h) exempts from PGRT a certain percentage of income or loss from the production after March 31, 1985 from an approved recovery project. This percentage is defined as the exempt percentage and will be approved by the Minister of Energy, Mines and Resources.

Effective January 1, 1986, production and resource royalties that are computed by reference to an amount or value of production after 1985 will not be subject to withholding tax under Division II of the Act except in the case of a non-resident not carrying on an oil and gas business in Canada. The royalties that are not subject to the withholding tax will be included under Division I of the Act. Paragraph (i) will exempt from PGRT an exempt percentage of production royalties or resource royalties which will be required to be included under Division I of the Act effective January 1, 1986. Similarly, paragraph (j) will exempt from PGRT any Division I royalties which are computed by reference to production from a prescribed oil or gas well and paragraph (k) will exempt the exempt percentage of Division I royalties which are computed by reference to the new deep production from a deepened oil or gas well.

New paragraphs 83(1)(h), (i) and 99(7)(a) exempt from PGRT the incremental production after March 31, 1985 from an approved recovery project. The definition of an approved recovery project includes certain prescribed enhanced oil recovery projects. A prescribed recovery project may actually include two or more separate projects located in a single reservoir by virtue of subsection 5.2(3) of the PGRT Regulations. Subsection 83(2) is added to ensure that the income or loss for each such project is computed separately. Similarly, it ensures that an exempt percentage may be approved for each such separate

project located in the same reservoir and that the "exempt percentage" does not apply to production from wells drilled outside these separate projects but in the same prescribed reservoir. Amendments to subsection 83(1) and new subsection 83(2) are applicable to taxation years ending after 1982.

PGRT ACT 99

Section 99 imposes a withholding tax on production and resource royalties. New paragraph 99(7)(a) exempts from PGRT an exempt percentage of resource royalties and production royalties which are normally taxed under Division II of the Act and which are computed by reference to production from an approved recovery project. Similarly, paragraph 99(7)(b) will exempt from PGRT the portion of Division II royalties which are computed by reference to the new deep production from a deepened oil or gas well and paragraph 99(7)(c) will exempt any Division II royalties which are computed by reference to production from a prescribed oil or gas well. This change is applicable after March 31, 1985.

Amendments to the Petroleum and Gas Revenue Tax Regulations (PGRT Regulations)

PGRT Regulations 5.5

New section 5.5 is added to define a prescribed oil or gas well, the production from which is exempt from PGRT. A prescribed oil or gas well means a well the drilling of which commenced after March 31, 1985, except where the well is drilled in a prescribed enhanced oil recovery project, a certified waterflood project or a certified major energy project. This exception is necessary on the grounds that the wells in the above-noted projects enjoy the benefit of either CERCE deductions or an exemption for incremental production. This change is applicable to taxation years ending after 1982.

Department of Finance Canada

Ministère des Finances Canada

Release

Communiqué

85-158

For immediate release

Ottawa, September 18, 1985

MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for June 1985 and the first three months of the 1985-86 fiscal year.

For June, budgetary revenues were $4,691 million, budgetary expenditures were $8,378 million and there was a deficit of $3,687 million. For 1984, revenues were $4,085 million, expenditures were $7,710 million and there was a deficit of $3,625 million.

For the first three months of the 1985-86 fiscal year, revenues were $13,089 million, expenditures were $22,830 million and there was a deficit of $9,741 million. For the same period last year, revenues were $11,522 million, expenditures were $21,041 million and there was a deficit of $9,519 million.

Publication immédiate

Ottawa, le 18 septembre 1985

ETATS MENSUELS DES OPERATIONS FINANCIERES

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois de juin 1985 et les trois premiers mois de l'année financière 1985-86.

Les chiffres budgétaires de juin montrent des recettes de $4,691 millions, des dépenses de $8,378 millions et un déficit de $3,687 millions. En 1984 les recettes s'établissaient à $4,085 millions, les dépenses à $7,710 millions et le déficit à $3,625 millions.

Les trois premiers mois de l'année financière 1985-86 ont produit des recettes de $13,089 millions contre des dépenses de $22,830 millions d'où un déficit de $9,741 millions. La période correspondante de l'an dernier avait donné des recettes de $11,522 millions, des dépenses de $21,041 millions et un déficit de $9,519 millions.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate Release

Ottawa, September 23, 1985
85-160

MINISTER TERMS PROTECTIONISM HARMFUL TO BOTH CANADA, U.S.

SAN FRANCISCO -- The Minister of Finance, Michael Wilson, said today in a speech to the Interstate Natural Gas Association of America that "Canada and the United States have a common stake in the healthy functioning of each other's economies."

"Protectionism, in whatever form -- while appealing to some as an apparent safeguard to domestic industry against the unfair trading practices of some foreign nations -- is harmful, misguided and short-sighted," Mr. Wilson added.

"We do not believe that protectionist measures are in the best interests of either Canada or the United States. The reality of interdependence is that we have a common stake in each other's economy.

"After all, to the extent that U.S. protectionist measures prevent Canada from reasonable access to the American market, our sales decline, our standard of living falls, and Canadians in turn become unable to afford the goods that you would hope to sell in Canada. We lose, but you lose too. That's the common stake we have in each other's economy."

Mr. Wilson noted: "We are each other's best trading customers -- by a long shot. More than 75 per cent of Canadian exports -- valued at $85 billion Canadian -- were sold to the United States in 1984. Natural gas exports alone, account for about $4 billion of this trade. In the other direction, we buy

.../2

everything from computer parts to California wines. About 24 per cent of American exports -- at a value of about $65 billion Canadian -- were bought by Canada ...

"Historically, Canada's trade surplus with the U.S. has been more than offset by deficits on service transactions such as investment flows, interest payments, and Canadians visiting California."

The Minister said U.S. exports to Canada are twice what the U.S. exports to Japan and are greater than all U.S. exports to Britain, France and West Germany combined.

Mr. Wilson pointed out that Canada's economy has shown significant improvement over the past year, and he expressed confidence that this momentum would continue through the coming year. Specifically, in the four quarters ending in June, Canada's economy grew at a rate of 4.6 per cent compared to 2.0 per cent in the United States. During the same time period, employment in Canada has increased by 3.1 per cent compared to 1.7 per cent in the United States. Inflation has been at or below 4 per cent for the past year, a rate comparable to the United States' performance.

Finally, Mr. Wilson outlined improvements to the energy sector that had been made since the advent of the new government. He said: "The Western Accord is a landmark agreement that eases oil and gas price regulation that for five years under the National Energy Program thwarted investment and growth in Western Canada's energy sector. As part of this overall improvement, there has been considerable progress in the natural gas sector. From both countries' points of view, the implementation by Canada last year of a market-sensitive gas export pricing regime was welcome news."

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 1200 hours EDT

Ottawa, September 23, 1985

85-159

Notes for an address
by the Honourable Michael Wilson
Minister of Finance
to the Interstate Natural Gas Association of America
San Francisco, California
September 23, 1985

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

I want, first, to thank you for inviting me to address this, the annual meeting of the Interstate Natural Gas Association of America. The great city of San Francisco is a wonderful location for your meeting. It has always been a favourite city with Canadians, many of whom have -- as the song says -- left their hearts here in The City by the Bay. And one needs only inhale a little of San Francisco's unique charm and character to understand why so many of us return again and again.

The theme of your meeting -- Innovation: Mandate for the Times -- could hardly be more timely or more topical. It captures the pulse of our age. Few issues so pervasively preoccupy business and government in our day as the imperative to innovate and the necessity to adjust to innovation with wisdom and sensitivity.

I know that the natural gas industry is in a period of transition. Major restructuring has taken place and will, no doubt, continue to take place. In this respect you represent the norm, rather than the exception. Scores of businesses and industries spanning most sectors of the economy are in much the same boat, bravely grappling with the strains and stresses of adjustment and the challenges of adaptation.

Domestically, in Canada, as in the United States and other industrialized countries, the new technologies -- characterized by silicon chips and fibre optics -- are producing changes in our economic structure with far-reaching implications for the old mass production system and for resource-based industries. One need only reflect on how refinements in the design of a silicon chip have improved all kinds of products while at the same time lowering their price.

On the international stage, differing rates of technological advance, especially in developing countries, are resulting in significant shifts in comparative advantage. And so we see bold, new competitors coming forward as forces to be reckoned with in the world marketplace.

These dramatic changes have taken place against a backdrop of emerging interdependence among the industrialized nations of the world. I am not sure we have all yet recognized the extent of this interdependence or what its implications are. Yet one of the great challenges business and political leaders face in this age of innovation and change -- a challenge we ignore at our peril -- is how best to manage the complex phenomenon of interdependence to the mutual benefit of all nations.

A moment ago I characterized the emerging phenomenon of interdependence as a backdrop to some of the dramatic changes brought on by new technologies. Perhaps it would be more accurate to suggest that interdependence itself has been both the agent and the vehicle of some of these momentous changes to the very structure of our economy. Interdependence means that not only change, but the effects of change as well, are transmitted from country to country at a rapid rate.

Nowhere is the emerging interdependence epitomized more fully than in the relationship of Canada and the United States. Nor should that really be a surprise to anyone. After all, Canada's development, like that of the United States, has been the story of how we succeeded in managing the interdependence of diverse regions with different strengths and needs within our own country. Ontario manufacturers have depended on a growing market in Quebec and vice-versa; prairie grain farmers have depended on superior shiploading facilities in British Columbia; major urban centres like Toronto and Montreal have depended on Alberta natural gas. And so it has evolved. Substitute American names for Canadian, and the story is the same.

It is not so startling, then, that interdependence should develop between us. The fact that Canada and the U.S. share the longest undefended border in the world, while something of a cliché, nonetheless says a great deal about the fundamental nature of trust and cooperation that marks our relationship. Our common heritage, our commitment to democracy and the free enterprise system, our similar values, hopes and aspirations and our unbroken record of mutual respect -- all these have built a positive basis for economic interdependence. And interdependence has indeed grown.

The most often cited evidence of the growing interdependence are the impressive trade figures. We are each other's best trading customers -- by a long shot. More than 75 per cent of Canadian exports -- valued at $85 billion Canadian -- were sold to the United States in 1984. Natural gas exports alone, account for about $4 billion of this trade. In the other direction, we buy everything from computer parts to California wines. About 24 per cent of American exports -- at a value of about $65 billion Canadian -- were bought by Canada. That's a pretty substantial amount of purchases for a nation whose market represents one-tenth the size of the American market.

Let me put the trade picture in another perspective. U.S. exports to Canada are twice what the U.S. exports to Japan and are greater than all U.S. exports to Britain, France and West Germany combined. Our markets are open to U.S. goods.

Trade figures, however, represent only the tip of the iceberg.

Beyond trade the picture includes Canadian companies with branches in the United States and American companies with branches in Canada. It involves the most highly interrelated and sophisticated financial markets in the world. It involves countless joint ventures on matters as varied as environmental protection and defence.

Each of us has invested substantial amounts in the other. Total Canadian investment in the U.S. at the end of 1984 was in excess of $29 billion Canadian while U.S. investment in Canada amounted to more than $64 billion Canadian.

And the concrete evidence of interdependence is everywhere. It is manifested dramatically when the Canada space arm contributes to the success of a U.S. space shuttle mission. Or by the fact that when a Chrysler van rolls off the assembly line it is truly a hybrid of Canadian and American manufacturing. Or indeed by the fact that the effort on both sides of the border in planning and building the Alaska Natural Gas Transmission System makes it one of the largest cooperative energy projects ever undertaken by two nations.

The reality of interdependence tells us that Canada and the United States have a common stake in the healthy functioning of each other's economies. Protectionism, in whatever form -- while appealing to some as an apparent safeguard to domestic industry against the unfair trading practices of some foreign nations -- is harmful, misguided and short-sighted.

I know that some Americans are calling for protectionist measures because of America's sizeable trade deficit with Canada. But trade deficits tell only part of the story, at least in the case of Canadian-American commerce. Historically, Canada's trade surplus with the U.S. has been more than offset by deficits on service transactions such as investment flows, interest payments, and Canadians visiting California. And this has meant that Canada's overall current account with the United States has in fact been negative far more often than not.

Canada is a fair trader. We intend to remain a fair trader. What concerns us is that we may get caught in a protectionist cross-fire if the United States moves to act against countries who resort to unfair trading practices.

We do not believe that protectionist measures are in the best interests of either Canada or the United States. To the extent that U.S. protectionist measures prevent Canada from reasonable access to the American market, our sales decline, our standard of living falls, and Canadians in turn become unable to afford the goods that you would hope to sell in Canada. We lose, but you lose too. That's the common stake we have in each other's economy. That's the reality of interdependence. And that's why we must seek, cooperatively, solutions that avoid the mutually destructive results of protectionism on the well-being of those who live both above and below the 49th parallel. Canada knows by bitter experience that protectionism doesn't solve problems -- it creates them.

We in Canada learned during the energy crisis of the 1970s the hard lesson of trying to wall off our national economy from world economic forces. Many of you will recall that the government of the day tried to cushion Canadians from the rapid increase in world oil prices.

For a time the nation lived an artificial existence. The truth was that painful adjustments were merely delayed and, in many respects, compounded. And it is only since the new government came to office last year that we have moved rapidly to a deregulated open oil market in Canada.

As you are probably aware, Canada is currently considering whether to pursue negotiations with the United States that might eventually lead to a liberalized trade agreement. As the Prime Minister said in a recent interview, Canada must increase its percentage of foreign trade if we are to create the jobs Canadians need. In our mind, trade means jobs, and we must trade our way out of a very serious unemployment problem. Of course, if we decided to proceed with discussions, we would be looking for freer but also fairer trade -- fairer for both nations. However, from our point of view, certain things would not be on the table for negotiation. We would never discuss anything that impinged on our national sovereignty and our cultural integrity.

I said a little earlier that interdependence implies that we each have a common stake in the healthy functioning of each other's economy. Therefore, I'm pleased to be able to tell you that Canada's economy has shown significant improvement over the past year and I am confident that this momentum will continue through the coming year.

Early in the recovery, Canadians watched with admiration, as well as a touch of envy, as the American economy surged forward with almost unheard of strength and vitality. Now, as those dizzy rates of growth in the U.S. economy have come down to earth again, we find that the Canadian economy has in fact been outperforming the U.S. in a number of areas over the past year. In the four quarters ending in June:

-- Canada's economy grew at a rate of 4.6 per cent compared to 2.0 per cent in the United States.

-- After-tax corporate profits in Canada rose by 5.4 per cent while they declined in the U.S.

-- Real residential construction in Canada jumped by over 10 per cent while American residential construction showed no-growth over the same period.

-- Real personal disposable income in Canada grew by 4.0 per cent, compared to 3.4 per cent in the U.S.

-- Reflecting the relatively greater strength of our economy, employment in Canada has increased -- by 3.1 per cent compared to 1.7 per cent in the U.S. -- and the unemployment rate has declined substantially more in Canada than in the U.S., despite the stronger labour force growth in Canada. Even so, the unemployment rate in Canada remains higher at 10.3 per cent as of August than the U.S. rate of 7.0 per cent.

-- Canada's performance on the inflation front has also been relatively strong. Inflation has been at or below the 4 per cent level for the past year, a rate which is comparable to the U.S. performance.

Until recently we have been concerned about investment activity -- or the lack of it -- in Canada. However, in the second quarter of this year business investment shot up at an annual rate of 22 per cent, resounding proof of the economy's improvement and the confidence investors are showing in the prospects for the Canadian economy.

I hope I won't sound unduly partisan if I say that the improvements Canadians are witnessing in our economy are the result of the new approach the government has taken. When we came to office a year ago we established two overriding priorities, priorities that bear fundamentally on Canada's ability to perform up to its economic potential.

Those priorities were national reconciliation and economic renewal. In fact, both priorities are inseparably linked. In Canada, the surest basis for national reconciliation is a strong economy, but it is equally true that a strong economy hinges on a sense of national cohesion and common purpose among all our provinces and regions.

In the past year there has been a dramatic improvement in the relations between the federal government and its provincial counterparts. National harmony is stronger today than it has been for years. Part of the improvement has been a change in style. We have replaced the former government's confrontational approach with an approach that emphasizes conciliation and

cooperation. This has been long overdue. Now we've got the atmospherics right, and that's an important ingredient in any truly national effort to energize the economy.

Nowhere is the success of our effort more evident than in the optimistic new outlook that one encounters today in the province of Quebec.

For many years there has been a simmering discontent in Quebec that strained the seams of the Canadian confederation. Quebecers were made to feel that their aspirations as a unique culture could not be preserved within the Canadian federal system.

Today there is a restored sense of confidence in Quebec that its cultural and economic aspirations can best be met in full partnership in the Canadian federal system. There is a new outward-looking attitude and a renewed sense of economic dynamism in Quebec. And the signs indicate that Quebec's economy is looking up again after a period of sub-standard activity.

In facing the challenge of economic renewal -- our second major priority -- the government has charted a new direction for the economy. That new direction is grounded in our conviction that we must create the right conditions for all the players -- consumers, investors, entrepreneurs, and businesses large and small -- to maximize their economic behaviour. In the past the federal government has proved to be a deterrent to the productive functioning of the economy. Overregulation strangled dynamic economic response. Excessive subsidization dulled private initiative. Government substituted its judgments for the judgments of the marketplace, and in doing so undermined the capacity of the private sector to be the leading force in creating economic growth and prosperity.

Fundamental to our new vision is the critical importance we attach to creating a better framework for economic growth and to ensuring that government is not an obstacle to change. We realize that to expect increased investment, greater innovation and the development of new enterprise, we cannot allow a heavy web of government regulations to immobilize the creators and producers in society.

We are determined to reduce the regulatory burden, wherever possible. We are already moving to achieve this in variety of sectors including transportation, communications, and of course the energy sector.

Indeed, it is in the energy sector where we have moved most decisively. The Western Accord is a landmark agreement that eases oil and gas price regulation that for five years under the N.E.P. thwarted investment and growth in Western Canada's energy sector. Among other desperately needed reforms, it deregulated crude oil prices, and provided for the elimination of the special energy taxes, including the controversial Petroleum and Gas Revenue Tax. All in all, it is a clear message that the Canadian government is committed to a market-oriented approach, not a government-administered approach. Our actions in the past year have, I believe, resulted in a dramatic improvement in our bilateral energy relations with the U.S. Witness the U.S. decontrol of oil exports to Canada.

As part of this overall improvement, there has been considerable progress in the natural gas sector. I know that from both our points of view, the implementation by Canada last year of a market-sensitive gas export pricing regime was welcome news. This measure confirmed that Canada is a secure, long-term source of supply of natural gas for the American market. The fact that it now is also attractively and competitively priced means that your consumers have also shared in the benefits of this policy.

Canadian producers, too, have benefitted, as volumes have increased, and export revenue earnings have stabilized. Consider that a year ago all Canadian gas exports were being sold at government-administered prices, and that now most of our exports are sold at prices negotiated between your buyers and our sellers. We have come a long way in a year.

Within our borders, as well, there is considerable potential for similar innovation. Domestically, we currently are exploring possibilities for developing a market-oriented pricing system for gas moving between our provinces. While there are many competing interests which must be considered in determining how we make the move to such a system, we are confident that the direction of change is clear. Deregulation is a fact of life here, and so we are watching your experience closely.

Just as our actions have had a direct effect on the health and vitality of our energy trade, so too have yours. The decontrol by the U.S. this summer of its oil exports to Canada is a concrete example of how we need to work together to our mutual advantage. This is a theme which is particularly apt at the present time in terms of our natural gas trade. Canadian exporters participate actively in U.S. gas markets. We are directly affected by your regulatory decisions. Once again, this is an area which can benefit from the kind of mutual cooperation and respect our two countries have come to expect of one another.

In my remarks today I have suggested that economic interdependence is not so much an option for Canada and the United States as it is a fact of life. There's no turning back or turning off. How smooth the road to the economic future will be depends on how well we pave it with wise domestic policies that not only advance our own interests, but our common interests as well.

We must continue to strengthen the cooperative links that have served us well in the past to our mutual advantage. That is probably the least difficult of tasks.

It will also be important for us to ensure that our thinking and planning facilitates mutual cooperation as well. And that requires a measure of vision and a measure of flexibility in our approach.

Canadians and Americans have every reason to believe that economic interdependence will continue to evolve in the best interests of both our countries. Through vision, through wise management, through cooperation, interdependence can serve our brightest hopes for economic prosperity.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate Release

Ottawa, September 26, 1985
85-163

NEW ISSUE OF CANADA SAVINGS BONDS PLANNED THIS FALL

The Honourable Michael Wilson, Minister of Finance, today announced that a new issue of Canada Savings Bonds (Series 40) will be offered to investors this Fall. The new series will be available for cash starting October 23 and will bear interest starting November 1, 1985. Further details, including the rate of interest to be paid, will be provided around mid-October.

The October announcement will also specify the rate of interest to be paid on all outstanding and unmatured Canada Savings Bond issues for the year commencing November 1, 1985.

All outstanding and unmatured issues provide for an annual rate of return of 11.25 per cent for the one year period ending November 1, 1985. After that date, each issue bears a specified minimum rate of interest which is guaranteed each year until maturity. The guaranteed minimum rate currently payable after November 1,1985 is 8 1/2 per cent for Series 37 and 7 per cent per annum for both Series 38 and 39. For all other outstanding unmatured series, the guaranteed minimum rate is 10 1/2 per cent per annum.

Mr. Wilson reminded holders of Canada Savings Bonds series 28, issued in 1973, Series 31, issued in 1976, and Series 33 issued in 1978, that these bonds mature on November 1, 1985 and will not earn interest after that date. Investors who wish to apply the redemption proceeds from these maturing bonds towards a purchase of the new Fall CSB issue should contact any authorized CSB sales or issuing agent before the end of October to ensure that the transaction can be completed before the sales termination date.

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release
85-164

BOOKLET SHOWS CHANGES ARE NEEDED TO KEEP CANADA PENSION PLAN FINANCIALLY HEALTHY

HALIFAX, September 27, 1985 -- The Honourable Michael Wilson, Minister of Finance, said today he and his provincial counterparts are intensifying their discussions on how to improve the Canada Pension Plan while keeping its long-term financing on a secure footing.

Mr. Wilson released a booklet which sets out the present financial position of the plan, now in its 20th year, and the factors involved in maintaining and enhancing its financial health.

Mr. Wilson issued the 23-page document at the conclusion of a two-day meeting with provincial ministers of finance and treasurers.

The ongoing discussions between the federal and provincial governments will deal with future financing, improvements in benefits and how best to maintain the parallelism between the CPP and the Quebec Pension Plan.

Mr. Wilson noted: "This booklet shows that the CPP is in good financial health. However, my provincial counterparts and I agree there should be consideration given to an early increase in the level of premiums that Canadian workers and their employers contribute to the plan. This will maintain the good health of the plan as the total amount of pension payments rises in the years ahead, and will result in each generation contributing more fairly to the cost of the benefits they will eventually receive."

.../2

He added that, when the CPP was established in 1966, it was intended that its finances be reviewed after some 20 years' experience. Since 1966, CPP benefits have been improved several times, with no increase in premiums. As well, the proportion of Canadians over age 65 is steadily increasing, and individual pensions have become larger as the CPP matures. For these reasons, the amount that the CPP pays out in pensions will rise significantly and steadily.

When the CPP began, it was known that the initial contribution rate would not be adequate to cover pension costs over the long term. As expected in its early years, the CPP has paid out less in benefits than it has taken in. But with the steady rise in pension payouts in the years to come, the fund that has accumulated would be depleted by about the year 2003 if there were no change in the rate of contributions by Canadian workers and their employers.

The booklet explains why a financing approach that involves gradual increases in the contribution rate each year would be preferable to a sudden large increase in the rate once the CPP fund was depleted.

For further information, contact:

Jean T. Fournier
Assistant Deputy Minister
Federal-Provincial Relations and Social Policy Branch
(613) 996-0735

Department of Finance Canada

Ministère des Finances Canada

Release

Communiqué

Immediate Release

Ottawa, September 27, 1985

85-165

NEW CHAIRMAN OF CDIC APPOINTED

The Honourable Barbara McDougall, Minister of State for Finance, announced today the appointment of Ronald A. McKinlay of Toronto as chairman of the Canada Deposit Insurance Corporation (CDIC). The appointment, effective September 30, 1985, is for a five-year term.

Mr. McKinlay retired last January as chairman of The Clarkson Company Limited, where he had worked since 1966. Previously he was an industrial adviser at the Bank of Montreal.

Mrs. McDougall said she is pleased that a person of Mr. McKinlay's ability and experience is assuming the chairmanship of CDIC at a time when a high priority of government is to strengthen Canada's system of financial institutions.

"The deposit insurance system plays a vital role in supporting public policy objectives, particularly as they relate to consumers and the stability of the financial system," the Minister said. "Mr. McKinlay's contribution will be most valuable as we develop new policies and procedures following the publication last spring of the discussion paper on financial institutions and the Wyman report on the CDIC."

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, October 3, 1985
85-168

BILL TABLED ON COMPENSATION FOR UNINSURED DEPOSITS IN TWO BANKS

The Honourable Barbara McDougall, Minister of State for Finance, today introduced in the House of Commons legislation to authorize the government to pay compensation for deposits in the Canadian Commercial Bank and Northland Bank that are not insured by the Canada Deposit Insurance Corporation (CDIC). Deposits to a maximum $60,000 in the banks are insured by CDIC.

Mrs. McDougall noted that compensation for uninsured deposits can not be made until the legislation is passed by Parliament.

"Among depositors in the two banks are small businesses, municipalities and charitable organizations which are in immediate need of funds," the Minister said, and expressed the hope that the legislation could receive early passage through the House.

Mrs. McDougall said that, in deciding to reimburse uninsured depositors, the government was concerned about the unsettling effects on the economy if such support was not provided. As well, it recognized that by maintaining their deposits in these two Alberta-based banks, depositors had expressed their confidence in the government's policy of encouraging the development of regionally-based financial institutions.

CDIC has already begun payments to insured depositors in the Canadian Commercial Bank, and anticipates it will shortly be in a similar position with regard to the insured deposits of Northland Bank.

.../2

On Friday, October 4, CDIC will seek an order for the appointment of a provisio liquidator of the Northland Bank.

Under the proposed legislation, the government would pay uninsured depositors the value of principal and accrued interest to September 1, 1985, in return for the depositors' rights in connection with their deposits in the institution.

The compensation would be paid in two instalments. The first instalment of 60 per cent of the amount payable would be made, on application by the depositor, following enactment of the legislation. The remaining 40 per cent would be payable on April 1, 1986. The payments would be made in the form of two cheques, with the latter being post dated and delivered with the first cheque. Compensation payments are expected to total an estimated $875 million.

Special provision may apply to deposits of depositors who have loans from the institution.

The bill would also provide similar compensation for uninsured deposits in the CCB Mortgage Investment Corporation in the event that that institution is unable to solve liquidity and other problems resulting from the failure of the Canadian Commercial Bank.

The Superintendent of Insurance took control of the assets of the CCB Mortgage Investment Corporation after a curator for the Canadian Commercial Bank was appointed at the start of September. A firm of independent auditors has been appointed to appraise and report on or before November 2 on the financial condition of the Corporation. CCB Mortgage Investment Corporation has approximately $100 million of deposits, of which some $94 million are insured by the CDIC.

It is proposed that CDIC will be appointed to act as agent of the government to make payments to the uninsured depositors. CDIC will be writing to all depositors explaining how the legislation will apply to them.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate Release

Ottawa, October 8, 1985

85-173

Notes for Remarks by
The Honourable Michael Wilson
Minister of Finance for Canada
to the Joint Annual Meeting of the
International Monetary Fund and World Bank

Seoul, South Korea
October 8, 1985

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Mr. Chairman, we are all indebted to our hosts, the Government of the Republic of Korea and the City of Seoul, for the excellent arrangements and facilities they have provided to make our meeting here both productive and agreeable.

Since the IMF/World annual meetings held in Toronto in 1982, we have concentrated on drawing up and refining a road-map to steady non-inflationary growth in the economies of the industrial countries and to adjustment and renewed growth in the developing countries. We can note with satisfaction today that we have made much progress along the path we charted. However, we still are walking a bumpy road and there are some troubling signs ahead.

These worrisome signs include the risk of an excessive slowdown in the U.S. economy and of an insufficient pick-up in growth in other major economies; they are reflected in continued high real interest rates and difficulties in coming to grips with high structural budget deficits. They also encompass large external imbalances between major economic powers and the menace of growing protectionist forces.

For the developing countries, the burden of high debt servicing costs and domestic financial imbalances is creating serious social and political strains in their societies. Debt service difficulties are being compounded by weak and declining commodity prices, difficulties in securing new financial flows, and the prospect of slower export growth.

With that as a backdrop, let me concentrate today on three general areas where our countries should be seeking ways to respond with more imagination and determination to the evolving economic and financial situation. These can be broadly summarized under the headings of macro-economic policy management, international trade and the international debt situation.

Looking at macro-economic policy management, it is clear that the U.S. economy has played a key role over the past three years in moving the global economic system out of the depth of the 1981-82 recession; however, the U.S. on its own could not sustain this impetus indefinitely. The slowing in the U.S. economy was to be expected and should not be seen in itself as a cause for concern. It is clear that the United States' main responsibility to the system now is to follow through on the first steps it has taken to reduce its structural budget deficit. At the same time, the other large and powerful economies must continue to preserve the growth momentum that has been established so far.

In their latest statement the G-5 countries have explicitly recognized that there exist serious financial imbalances and currency misalignments among them. They have also rightly concluded that the only lasting corrective solution is the redirection and adaptation of underlying economic policies to improve policy coordination and secure a greater convergence of economic performance.

The essential questions that remain to be answered by all of us are whether and how effectively our good intentions will be put into practice. That is, will those countries that need to provide more stimulus to global demand put in place policies that will achieve that objective? Will countries that need to exercise restraint have the political will and stamina to carry through with their program?

Turning to international trade, we are all preoccupied by the serious imbalances which have developed and are persisting. These imbalances are not an accident of history; they are caused in part by the interaction of economic policies geared to domestic objectives, but which failed to take account of their broader international repercussions. Even more threatening is the potential political response to this situation; instead of addressing the root causes of the problem, many interest groups are pressing for a quick-fix solution through broadly-based protectionism measures. Not only would such short-sighted solutions fail to solve the problem at hand, but they would surely bring on the gravest consequence for the international trading system, the level and structure of global output, and the generation of world income.

In both these areas -- economic policy management and trade policy -- Canada is making every effort to adapt to existing difficult circumstances. Without question, we have made significant progress over the past year and this is a source of satisfaction to us. Our GNP rose by 4.5 per cent between the second quarter of this year and the same period in 1984, one of the highest growth rates among the industrial countries over that period. Moreover, domestic demand growth is now becoming predominant in our expansion now that the external impetus has diminished. Nearly 340,000 jobs have been created over the past year. Unemployment, while still standing at an unacceptably high level, has begun to move in the right direction. It declined to 10.4 per cent from the corresponding period last year. Inflation is now running at less than 4 per cent, compared to double-digit levels only a few years ago.

The major challenge facing us is to reduce our structural public sector deficit and thus permit the more efficient operation of market forces in our economy. These objectives are fundamental to the medium-term adjustment strategy which I outlined in the government's first budget, last May.

Canada is also committed to a strong multilateral trading system buttressed by the rule of law. We therefore believe in the over-riding importance of continued trade liberalization and we strongly support the early launching of a new round of multilateral trade negotiations. Hand in hand with multilateral solutions, we are also pursuing trade liberalization bilaterally with the United States, our largest trading partner. Our bilateral and multilateral actions are complementary and mutually reinforcing.

The third area where all of us who are meeting here are facing major challenges is the international debt situation. While many debtor countries have achieved a remarkable turnaround in their external positions over the past few years, a number still face a heavy debt service burden. Some of them are becoming discouraged with this situation and with the economic, social and political problems that it entails.

The international debt problem appears to have entered a new phase. Today we are less concerned about temporary liquidity crises although these will surely surface periodically. Instead, we are now looking at a long term debt

service burden in many countries, which drains off a large proportion of export earnings, depresses standards of living and impedes development programs and strategies. The challenge before us is to review our strategy and take account of these longer-term problems.

An essential element in improving the growth and development prospects for the stronger and more diversified debtor countries is a restoration of creditworthiness leading to increased voluntary commercial lending in support of worthwhile investments. This will require policies that not merely deter capital flight, but that are successful in mobilizing domestic savings to take advantage of internal investment opportunities. More attention must also be paid to the effective functioning of the private sector in the heavily indebted countries. We have already made a good start in this direction and gained much experience over the past several years; we must now persevere in these efforts.

If we wish to encourage new private lending, we must also support adequate levels of official lending. If the national authorities of creditor countries give a signal -- either individually through their own agencies or collectively through their multilateral institutions -- that official financing activities need to be or are being trimmed, the private sector will surely follow suit.

For those countries that do not have access to commercial credit and are facing severe economic hardships, it is particularly important that adequate aid and concessional financing be provided. This must be done to support ambitious and courageous structural adjustment programs to set these economies on a sounder and more self reliant footing.

I have already touched on the question of protectionism in relation to the imbalances among the industrial countries, yet this is equally relevant and crucial in relation to the exports of the developing countries. The point is often made that the developing countries must have continued access to the markets of industrial countries if they are to ensure the adequacy of their export earnings and their debt service capacity. However, there is more to

this issue. If the developing countries are allowed to export what they can produce most efficiently, they will be able to increase their growth. This expansion will entail new import needs, which can be met by the most competitive sectors in the industrial countries. In this way trade and growth become mutually reinforcing.

Mr. Chairman, we, as governors of the Fund and the Bank, have particular responsibilities in ensuring that our institutions can respond adequately to the challenges I have outlined above. The Fund and the Bank must work in close cooperation, not only to address short-term problems, but also to adopt measures and policies which will assure greater economic stability and growth in the future.

Let me first deal with Fund-related matters. In the past, Canada has been a strong supporter of efforts to promote external adjustment in deficit countries, while providing members with the financial resources needed in support of their adjustment programs. Consequently, Canada supports the continuation of the Fund's enlarged access policy for 1986. I am pleased that there is acceptance that the limits set on borrowing from the Fund should not be greatly changed. This should give the Fund sufficient flexibility in its lending policies, even if the world economy evolves less favourably than expected.

I also welcome the proposals that have been made to use the reflow of resources to the former trust fund to extend concessional financing to the low income countries which are willing to undertake serious structural adjustment programs. I share the view that these programs will have much greater chance of success if they are arranged in close cooperation with the World Bank.

The question of the creation of non-conditional liquidity by the Fund through a new allocation of SDRs is still at issue. Canada endorsed the commitment of the Fund to reexamine the role of the SDR and believes that this study will be useful in evaluating the potential need and objective criteria for further infusions of SDRs in the monetary system.

Beyond these more immediate considerations, we must also reflect on the future evolution of the international monetary system and the need to adapt or modify the system to create a more stable world economic environment. The reports on international monetary issues prepared by the G-10 countries and the G-24 countries are a good starting point. For the first time, we have two clear and comprehensive statements of the views of both groups of countries on issues of common interest.

Many of the concerns expressed in the G-10 and G-24 reports are parallel. Both see the need to improve exchange rate stability, to enhance the effectiveness of IMF surveillance and to ensure adequate aid and financial flows to developing countries. There is, however, considerable divergence in the proposed solutions to the weaknesses that have been identified. I believe, Mr. Chairman, that the executive board of the Fund should review the reports in detail and try to identify those areas where progress is more promising. The substance of these reports could then be reviewed and discussed at the spring meeting of the Interim Committee in the light of the executive board's advice.

Mr. Chairman, I would now like to turn to World Bank issues. The Bank has played a productive role in assisting developing countries by providing financing for hundreds of essential development projects. This role must continue. But the Bank is also well placed to assume an enhanced role in helping developing countries improve their overall economic performance. Canada, therefore, supports increased Bank lending in the next few years in a way that will serve to promote improved economic policies, structural adjustment and a more efficient use of resources on the part of its borrowers. This expanded lending program must lead us quite soon to discussion of a general capital increase for the World Bank.

Turning to IDA, I am encouraged by our agreement to begin the negotiations on the next replenishment very soon. We want to see IDA regain its position as the premier multilateral concessional lender and we look for a substantial increase in its resources. We will also be seeking creative ways of ensuring

that these resources are used in the most effective manner possible. We welcome the efforts which the World Bank is making through IDA and the Special Facility for sub-Saharan Africa to alleviate hardship and improve economic performance in those countries. We hope the next replenishment of IDA will enable this emphasis on Africa to be carried forward while still permitting IDA to meet the needs of other recipients.

Over the past few days we have spent a great deal of time focussing on the problems of the poorest and of the most heavily indebted. Is there not some risk, however, that we may inadvertently be forgetting about the countries that fall into neither category? At this year's Economic Summit in Bonn, the Prime Minister of Canada stressed the difficulties being experienced by many of the lower middle-income countries. Many face debt-servicing obligations which place a crushing burden on their economies. Some are dependent on a few resource-based commodities for their export earnings and have experienced a significant deterioration in their terms of trade. Many have undertaken major programs of structural adjustment. However, as they are neither in the category of the poorest or the largest debtor countries, these efforts may be constrained by inadequate access to resources either from concessional or non-concessional resources.

I am encouraged by the increased sensitivity on the part of the Bank and the Fund to the difficulties faced by these countries. Nevertheless, I feel that further efforts are needed to assess their economic and financial problems so that we can develop ways of more effectively meeting their needs. As a first step in this process I have proposed that the World Bank undertake an indepth analysis of the challenges facing the lower middle-income countries.

Mr. Chairman, the problems faced by the world economic community are numerous and their complexity and difficulty constitute major challenges. Regardless of our individual situations, we each have our own responsibilities to adopt domestic policies that are conducive to a lasting improvement in our own national economies and also, by extension, in the world economy. At the same time, the stronger countries must help the weaker countries to benefit from our

actions in a way that not only provides them with the necessary financial flows, but also improves their growth prospects in the most efficient manner possible. We have two powerful institutions to help us in meeting these challenges: the Fund and the Bank. Let us support them and strengthen their role further. Let us also bear in mind that private investors and lenders have a critical role to play. But they are looking to us -- governments and multilateral institutions -- for leadership. Let us not fail in these tasks.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate Release

Ottawa, October 10, 1985
85-174

TERMS OF NEW SERIES OF CANADA SAVINGS BONDS ANNOUNCED

The Honourable Michael Wilson, Minister of Finance, today announced that the 1985/86 series of Canada Savings Bonds will offer investors 8.50 per cent interest in the first full year and a guaranteed minimum of 6.50 per cent in each of the following six years to maturity in 1992.

Mr. Wilson also announced that the individual purchase limit for bonds of this new series will be $75,000. "This limit, however, will not restrict holders of maturing series S28, S31 and S33 bonds from converting the full principal amount of their certificates coming due November 1," the Minister said. "The maturing amount can be in addition to the $75,000 limit."

Mr. Wilson said he anticipates "strong public demand for the new issue because of the attractive first-year return as well as other valuable features of CSBs." He also emphasized that the 6.50 per cent rate offered after the first year "is a minimum and, as in past years, may be adjusted upward."

Canada Savings Bonds of the new series (S40) will go on sale Wednesday, October 23, and no accrued interest will be charged when purchased up to and including Friday, November 8. However, as with past series of CSBs, the Minister reserves the right to terminate sales at any time at his discretion.

The Minister further announced that the 8.50 per cent rate will also apply to the last three series of Canada Savings Bonds (S37 dated 1982, S38 dated 1983, and S39 dated 1984) for the year commencing November 1, 1985. The guaranteed minimum annual rates for these series are: 8.50 per cent for S37 and 7.00 per cent for S38 and S39.

For all other series of unmatured Canada Savings Bonds, the existing guaranteed minimum annual rate of 10.50 per cent will apply for the year commencing November 1, 1985.

THE NEW SERIES

The new series will be dated November 1, 1985 and will again be offered in two forms -- Regular Interest Bonds which pay interest annually by cheque or direct deposit, and Compound Interest Bonds, on which interest is left to accrue and compound annually to maturity.

Investors may cash the new bonds at any time. There will be no interest penalty for bonds redeemed after December 31, 1985; no interest will be paid on bonds of this issue cashed during the initial two months from the November 1

Canada

Ottawa, Canada K1A 0G5
613 992-1573

date of issue. Interest on this series will accrue on a monthly basis. In cases where Regular Interest Bonds are redeemed during the months of September and October in any year, unearned interest will be deducted from the redemption proceeds and a full year's interest will be forwarded to the investor on the following November 1. This procedure facilitates the preparation of annual interest payments.

The bonds may be registered only in the name of bona fide residents of Canada, estates of deceased persons, or a trust governed by certain types of deferred savings and income plans, including Registered Retirement Savings Plans, Registered Pension Plans, Deferred Profit Sharing Plans, Employee Profit Sharing Plans, Registered Retirement Income Funds, and Registered Education Savings Plans.

No person may have a beneficial interest in this series greater than $75,000. However, there will be an exception to this purchase limit for holders of the 1973/74 (S28), 1976/77 (S31) and 1978/79 (S33) series of Canada Savings Bonds which mature this fall. Holders of these maturing series may convert the full principal component of the redemption proceeds into the new issue without affecting this year's purchase limit.

Investors may purchase their bonds at banks and other authorized sales outlets including investment dealers, stock brokers, trust and loan companies, credit unions and caisses populaires. In addition, some 10,000 firms and organizations across the country will operate Payroll Savings Plans to permit employees to acquire bonds by payroll deductions.

Both types of bonds will be available for cash purchase. Only the Compound Interest Bonds are available under the Payroll Savings Plan offered at many workplaces and the Monthly Savings Plan offered at banks. For the Monthly Savings Plan, sales will not extend beyond Friday, November 8 and individual purchases will be subject to a minimum amount of $1,000 and a maximum amount of $10,000. So that organizations offering the Payroll Savings Plan will have sufficient time to process applications of individual employees before submitting bulk employee applications to an authorized issuing agent, the deadline for making such submissions will be Tuesday, November 19.

On Compound Interest Bonds, accrued interest is compounded automatically after the first year. The rate at which compound interest is earned will be equal to the simple annual interest rate payable for that year.

Both types of bonds are registered as to principal and interest. The Regular Interest Bonds offer the convenient option of direct deposit of interest. Investors wishing to have annual bond interest deposited directly into their chequing or savings account may make the necessary arrangements where they normally bank. Both types of bonds will be offered in denominations of $300, $500, $1,000, $5,000 and $10,000. A $100 bond will also be available in compound interest form only, subject to a limit of five $100 bonds on each purchase application.

OUTSTANDING UNMATURED ISSUES

As in the past, payment of the rate of return on outstanding unmatured Canada Savings Bonds will be made according to the series and type of bond as follows:

a) Series dated November 1, 1982 to 1984 inclusive:

Regular Interest Bonds of these series will earn simple annual interest at the rate of 8.50 per cent for the year beginning November 1, 1985. As a result, holders of Regular Interest Bonds will receive an annual interest payment of $85.00 per $1,000 bond on November 1, 1986.

Compound Interest Bonds will earn both simple annual interest and compound interest at the rate of 8.50 per cent for the year beginning November 1, 1985. The value of each $1,000 Compound Interest Bond as of November 1, 1985 and November 1, 1986 is as follows:

Series	Value at November 1, 1985	Value at November 1, 1986
1982/83 (S37)	$1,366.45	$1,482.59
1983/84 (S38)	$1,220.04	$1,323.75
1984/85 (S39)	$1,112.50	$1,207.06

b) Series dated November 1, 1977 and November 1, 1979 to 1981 inclusive

Regular Interest Bonds of these series will earn simple annual interest at the rate of 10.50 per cent for the year beginning November 1, 1985. As a result, holders of Regular Interest Bonds will receive an annual interest payment of $105.00 per $1,000 bond on November 1, 1986.

Compound Interest Bonds will earn simple annual interest at the rate of 10.50 per cent and compound interest at the rates shown below for the year beginning November 1, 1985. The value of each $1,000 Compound Interest Bond as of November 1, 1985 and November 1, 1986 is also provided.

Series	Compound Interest Rate	Value at November 1, 1985	Value at November 1, 1986
1977/78 (S32)	11.33%	$2,431.91	$2,699.28
1979/80 (S34)	11.33%	$2,109.16	$2,339.93
1980/81 (S35)	11.25%	$1,886.99	$2,091.80
1981/82 (S36)	10.50%	$1,645.31	$1,818.07

MATURED AND MATURING ISSUES

The Minister reminds holders of the 1973/74 (S28), the 1976/77 (S31) and the 1978/79 (S33) series that these bonds will mature on November 1, 1985 and will not earn interest after that date. Although these series mature November 1, investors who wish to apply the redemption proceeds from their maturing bonds towards purchase of the new issue may contact any authorized Canada Savings Bonds sales or issuing agent at their convenience during October to arrange the transaction.

.../4

The maturing S33 series was issued in Regular and Compound Interest form. A $1,000 Compound Interest Bond of this series will be worth $2,305.86 on the November 1, 1985 maturity date.

Both the maturing S28 and S31 series are "old style" bonds which were issued in Coupon and Fully Registered forms. Series 28 was also issued in Special Fully Registered form. These bonds pay a maturity cash bonus if held to the November 1, 1985 maturity date of $482.70 for every $1,000 bond of S28 and $356.90 for every $1,000 bond of S31. In addition, holders of S28 bonds are also entitled to an interim cash bonus of $205.00 for every $1,000 bond (which was payable November 1, 1979) as long as the upper left-hand corner of the bond certificate has not been removed.

Series S28 and S31 are the last of the "old style" bonds to come to maturity. Therefore, holders of any of these types of bonds should be aware that they have matured and will no longer earn interest. All bonds issued prior to 1977 (S1 to S31) as well as the series dated 1978 (S33) will have matured by November 1, 1985.

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

85-178

For immediate release

Publication immédiate

Ottawa, October 18, 1985

Ottawa, le 18 octobre 1985

MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for July 1985 and the first four months of the 1985-86 fiscal year.

For July, budgetary revenues were $6,328 million, budgetary expenditures were $8,162 million and there was a deficit of $1,834 million. For 1984, revenues were $5,773 million, expenditures were $7,568 million and there was a deficit of $1,795 million.

For the first four months of the 1985-86 fiscal year, revenues were $19,417 million, expenditures were $30,992 million and there was a deficit of $11,575 million. For the same period last year, revenues were $17,295 million, expenditures were $28,609 million and there was a deficit of $11,314 million.

ETATS MENSUELS DES OPERATIONS FINANCIERES

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois de juillet 1985 et les quatre premiers mois de l'année financière 1985-86.

Les chiffres budgétaires de juillet montrent des recettes de $6,328 millions, des dépenses de $8,162 millions et un déficit de $1,834 millions. En 1984 les recettes s'établissaient à $5,773 millions, les dépenses à $7,568 millions, et le déficit à $1,795 millions.

Les quatre premiers mois de l'année financière 1985-86 ont produit des recettes de $19,417 millions contre des dépenses de $30,992 millions d'où un déficit de $11,575 millions. La période correspondante de l'an dernier avait donné des recettes de $17,295 millions, des dépenses de $28,609 millions et un déficit de $11,314 millions.

Department of Finance Canada

Ministère des Finances Canada

Release Communiqué

Immediate release FN 20

Ottawa, November 1, 1985
85-188

INVESTMENT IN SMALL BUSINESS BY PENSION AND OTHER RETIREMENT PLANS - DRAFT LEGISLATION RELEASED

The Honourable Michael Wilson, Minister of Finance, today released draft legislation and regulations relating to the measures contained in his May 23, 1985 budget to encourage investment in small business by registered pension and other retirement plans.

The draft legislation and regulations incorporate several recommendations made during post-budget consultations.

"In particular, I note that effective January 1, 1986, deferred income plans that have made qualifying small business investments after October 31, 1985 will be permitted to invest in additional foreign property. In addition, a trust may be utilized in the pooling of qualifying small business investments, in the same way as the small business investment limited partnership referred to in the Budget Papers. Further, the draft provisions confirm that the provincially-assisted venture capital corporations (referred to as prescribed venture capital corporations) will qualify for these measures," Mr. Wilson said.

The Minister also indicated that consultations are continuing on these measures and that representations should be forwarded to the Tax Policy and Legislation Branch of the Department of Finance as soon as possible.

Further information:

A. MacNevin (613) 992-2861
C. Muirhead (613) 996-0597

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Small Business Investments by Deferred Income Plans

The amendments contained in the attached draft income tax legislation and regulations implement the proposals contained in the Budget Papers of May 23, 1985 relating to small business investments by deferred income plans.

These proposals are intended to encourage deferred income plans (registered pension plans, registered retirement savings plans, registered retirement income plans and deferred profit sharing plans) to invest in small and medium-sized businesses. The amendments permit RRSPs and RRIFs to invest directly in qualifying small businesses and allow all deferred income plans to channel such investments through certain partnerships and trusts. Pension funds will also be able to channel their small business investments through a special exempt corporation. In addition, deferred income plans will be allowed to make $3 of additional investment in foreign property for every $1 of investment in qualifying small business. The following is an outline of these amendments.

Small Business Definitions

The following terms are defined in section 5100 of the Regulations for the purposes of these measures relating to small business investment:

(a) small business investment corporation "SBIC" (subsection 5100(3)) - a small business investment vehicle for registered pension funds;

(b) small business investment limited partnership "SBILP" (subsection 5100(4)) - a pooling vehicle for small business securities;

(c) small business investment trust "SBIT" (subsection 5100(5)) - a pooling vehicle for small business securities, an alternative to the SBILP; and

(d) small business security (subsection 5100(2)) - shares and certain debt issued by eligible corporations in prescribed circumstances.

The definition of the SBIC requires that all of its shares be held by or for registered pension funds. It is required to invest exclusively in small business securities and interests in SBILPs or SBITs and may, in addition, hold certain amounts of specified property being cash and certain debt obligations. A SBIC and persons with whom it does not deal at arm's length may generally not own in total more than 30% of the voting shares of a corporation and a SBIC may not borrow or accept deposits.

To ensure uniform investor participation, the definitions of the SBILP and SBIT require that in funding their activities they issue units which are identical in all respects. In addition, no single investor (together with persons with whom he does not deal at arm's length) may own more than 30% of the units. SBILPs and SBITs must invest exclusively in small business securities and may, in addition, hold certain amounts of specified property. A SBILP or SBIT must generally not own more than 30% of the voting shares of any corporation and cannot borrow or accept deposits. In contrast to SBICs, taxable persons may hold interests in SBILPs and SBITs.

To qualify as a small business security, a number of conditions must be met. First, the issuer must be an eligible corporation. As defined in subsection 5100(1) of the Regulations, an eligible corporation is a taxable Canadian corporation that carries on a qualifying active business primarily in Canada and uses substantially all of its assets in carrying on that business. The corporation must not be controlled by non-residents and cannot be a financial, investment or similar corporation or a venture capital corporation. It should be noted that an express provision ensures that prescribed venture capital corporations, as defined in section 6700 of the Regulations, qualify as eligible corporations. Second, the total investment by the deferred income plan in any one corporation (and all associated corporations) may not exceed $10,000,000. Third, the total assets of the corporation (and all associated corporations) may not exceed $35,000,000. These two size tests apply immediately after the investment is made by the plan. Fourth, debt obligations of eligible corporations, which may be held by a pension plan, SBIC, SBILP or SBIT, will only qualify if they are unsecured or subordinated and the interest rate does not exceed a specified rate.

"3 for 1" Additional Foreign Property Room

These new measures will permit significant additional foreign property holdings where interests in SBICs, SBILPs or SBITs or direct investments in small business securities have been acquired by the deferred income plans. The additional foreign property room provided for a particular month is determined by reference to the investor's average holding of small business properties over the 3 immediately preceding months. The maximum amount of additional foreign property room that may be made available to an investor under this provision is 20% of the investor's total assets.

The "3 for 1" proposal is not applicable to pooled fund trusts, mutual fund trusts, mutual fund corporations, registered investments or corporations described in paragraph 149(1)(o.2) of the Income Tax Act. However, a special election described below will permit deferred income plans to earn additional foreign property room in respect of their share of investments in small business properties by a qualified trust.

Election for Qualified Trusts

Amendments to section 259 of the Income Tax Act permit an election to be made by a qualified trust so that its beneficiaries will be considered to hold a proportionate interest in the underlying assets of the trust for the purposes of the qualified investment and foreign property provisions of the Income Tax Act. This election permits a beneficiary of a qualified trust which holds small business properties to benefit from the additional foreign property investment room relating to its proportionate interest in those properties.

Qualified Investments

Section 4900 of the Regulations is amended to provide that the following are qualified investments for deferred income plans:

(a) for a trust governed by an RRSP/RRIF (subject to an anti-avoidance rule contained in 4900(8)),

(i) a share of the capital stock of a corporation that is an eligible corporation, provided that the annuitant under the plan or fund is not a designated shareholder of the corporation, and

(ii) an interest in a SBILP or a SBIT, provided that the SBILP or SBIT does not hold a small business security of a corporation of which the annuitant under the plan or fund is a designated shareholder (subsection 4900(9) provides an exception to this restriction for interests in certain SBILPs and SBITs which have more than 10 arm's length investors); and

(b) for a trust governed by a DPSP, an interest in a SBILP or SBIT, provided that the SBILP/SBIT does not hold shares in the employer corporation (or a related corporation) other than shares that meet the requirements of subparagraph 204(e)(vi) of the Income Tax Act.

For this purpose, the definition of designated shareholder (subsection 4901(2)) includes a person who is a specified shareholder, as defined in subsection 248(1) of the Income Tax Act, and any employee of an employee-owned corporation unless the corporation is controlled by one person or a related group of persons.

1.(1) All that portion of subsection 146(4) of the said Act preceding paragraph (a) thereof is repealed and the following substituted therefor:

"(4) Except as provided in subsection (10.1), no tax is payable under this Part by a trust on the taxable income of the trust for a taxation year if, throughout the period in the year during which the trust was in existence, the trust was governed by a registered retirement savings plan, except that"

(2) Section 146 of the said Act is amended by adding thereto, immediately after subsection (10) thereof, the following subsection:

"(10.1) Where in a taxation year a trust governed by a registered retirement savings plan holds a property that is a non-qualified investment,

(a) tax is payable under this Part by the trust on the amount that its taxable income for the year would be if it had no incomes or losses from sources other than non-qualified investments and no capital gains or losses other than from dispositions of non-qualified investments; and

(b) for the purposes of paragraph (a),

(i) "income" includes dividends described in section 83, and

(ii) paragraphs 38(a) and (b) shall be read without reference to the words "1/2 of" where they appear therein."

(3) Subsection (1) is applicable to the 1986 and subsequent taxation years.

(4) Subsection (2) is applicable to the 1986 and subsequent taxation years in respect of property acquired after October 31, 1985.

2.(1) Subsection 149(1) of the said Act is amended by adding thereto, immediately after paragraph (o.2) thereof, the following paragraph:

"(o.3) a corporation that is prescribed to be a small business investment corporation;"

(2) Subsection (1) is applicable with respect to periods occurring after October 31, 1985.

3.(1) Section 206 of the said Act is repealed and the following substituted therefor:

"206.(1) In this Part,

"foreign property" means

(a) tangible property situated outside Canada except automotive equipment registered in Canada,

(b) automotive equipment not registered in Canada pursuant to the laws of Canada or a province,

(c) intangible property (other than any property described in paragraphs (d) to (g)) situated outside Canada including, without restricting the generality of the foregoing, any patent under the laws of a country other than Canada and any licence in respect thereof,

(d) any share of the capital stock of a corporation other than a Canadian corporation,

(e) any share of the capital stock of a mutual fund corporation that is neither an investment corporation nor a registered investment, except as prescribed by regulation,

(f) any property that, under the terms or conditions thereof or any agreement relating thereto, is convertible into, is exchangeable for or confers a right to acquire, property that is foreign property, but not including property that is

(i) a share of the capital stock of a Canadian corporation listed on a prescribed stock exchange in Canada, or

(ii) a right issued before 1984 and listed on a prescribed stock exchange in Canada to acquire a share of the capital stock of a Canadian corporation,

(g) any bond, debenture, mortgage, hypothec, note or similar obligation of, or issued by, a person not resident in Canada, except any such bond, debenture, mortgage, hypothec, note or similar obligation issued or guaranteed by

(i) the International Bank for Reconstruction and Development,

(ii) the Inter-American Development Bank,

(iii) the Asian Development Bank,

(iv) the Caribbean Development Bank, or

(v) a prescribed person,

(h) any interest in or right to any property that is foreign property by virtue of paragraphs (a) to (g), and

(i) except as prescribed by regulation, any interest in, or right to acquire an interest in, a trust (other than a registered investment) or a partnership;

"small business investment amount" of a taxpayer for a month means the quotient obtained when the aggregate of all amounts determined for each of the 3 preceding months, each of which is the aggregate

of the fair market values, at the time of acquisition, of all small business properties of the taxpayer at the end of that preceding month, is divided by 3; and

"small business property" of a taxpayer at a particular time means property acquired by the taxpayer after October 31, 1985 that is at that particular time

(a) a property prescribed to be a small business security,

(b) a share of a class of the capital stock of a corporation prescribed to be a small business investment corporation,

(c) an interest of a limited partner in a partnership prescribed to be a small business investment limited partnership, or

(d) an interest in a trust prescribed to be a small business investment trust,

where the taxpayer is the first person (other than a broker or dealer in securities) to have acquired the property and the taxpayer has owned the property continuously since it was so acquired.

(2) Where at the end of any month

(a) the aggregate of all amounts each of which is the fair market value, at the time of its acquisition by a taxpayer described in any of paragraphs 205(a) to (f), of a foreign property of the taxpayer, other than, where the taxpayer is described in any of paragraphs 205(b) to (e), a foreign property that was not at the end of the month a qualified investment of the taxpayer (within the meaning assigned by paragraph 204(e), subsection 146(1), 146.2(1) or 146.3(1), as the case may be)

exceeds the aggregate of

(b) 10% of the aggregate of all amounts each of which is the fair market value, at the time of its acquisition, of a property of the taxpayer, and

(c) in the case of a taxpayer described in paragraph 205(a), (b), (c) or (e), other than a taxpayer described in paragraph 149(1)(o.2), the lesser of

(i) 3 times the small business investment amount of the taxpayer for the month, and

(ii) 2 times the amount determined under paragraph (b),

the taxpayer shall, in respect of that month, pay a tax under this Part equal to 1% of the lesser of such excess and the aggregate of

all amounts each of which is the fair market value, at the time of its acquisition, of each of its foreign properties that was acquired by it after June 18, 1971.

(3) Notwithstanding the definition of foreign property in subsection (1), a share of the capital stock of an investment corporation (other than a registered investment) acquired after October 13, 1971 by a taxpayer to whom this Part applies and owned by him at a particular time shall, except as prescribed by regulation, be deemed to be a foreign property of the taxpayer at that time.

(4) For the purposes of this section and subsection 207.1(5), the fair market value at the time of acquisition of a small business property of a taxpayer

(a) shall be reduced by the amount of any return or distribution of capital received by the taxpayer in respect of the property; and

(b) shall be increased by the amount of any contribution of capital (otherwise than by way of loan) made by the taxpayer in respect of the property, subsequent to the acquisition of the property.

206.1 Where at any time a taxpayer to which this Part applies has entered into an agreement (otherwise than pursuant to the acquisition or writing by it of an option listed on a prescribed stock exchange) to acquire shares of the capital stock of a corporation from a person other than the corporation at a price that may differ from the fair market value thereof at the time they may be acquired, the taxpayer shall, in respect of each month during which it is a party to the agreement, pay a tax under this Part equal to 1% of the maximum amount that the taxpayer is or may be required to pay for the shares under the agreement."

(2) Subsection (1) is applicable with respect to periods occurring after October 31, 1985, except that in the application of subsection 206(2) of the said Act as enacted by subsection (1), the amount determined under paragraph (c) thereof shall be deemed to be nil for the period that is before 1986.

4.(1) Section 207.1 in the said Act is amended by adding thereto the following subsection:

"(5) Where at the end of any month a trust governed by a registered retirement savings plan or registered retirement income fund holds a small business property (within the meaning assigned by the definition of that expression in subsection 206(1)), the trust shall, in respect of that month, pay a tax under this Part equal to 1% of the amount, if any, by which

(a) the aggregate of the fair market values, at the time of acquisition, of all small business properties (other than a share of the capital stock of a public corporation) held by the trust at the end of the month

exceeds

(b) 50% of the aggregate of the fair market values, at the time of acquisition, of all properties held by the trust at the end of the month."

(2) Subsection (1) is applicable with respect to property held after October 31, 1985.

5.(1) Section 259 of the said Act is revoked and the following substituted therefor:

"259.(1) For the purposes of subsection 146(6), (10) and (10.1), 146.2(12), (13) and (14) and 146.3(7), (8) and (9) and Parts X, X.2, XI and XI.1, where at any time a taxpayer described in section 205 acquires, holds or disposes of an interest in a qualified trust and the trust elects for any period that includes that time to have the provisions of this subsection apply, the taxpayer shall be deemed

(a) not to acquire, hold or dispose of at that time, as the case may be, that interest in the trust;

(b) to hold at that time that proportion (referred to in this subsection as his "specified portion") of each property of the trust that the number of units of the trust held by the taxpayer at that time is of the number of units of the trust outstanding at that time;

(c) to acquire his specified portion of each property of the trust at the later of

(i) the date the trust acquires the property, and

(ii) the date the taxpayer acquires the interest in the trust,

and the fair market value, at the time of acquisition by the taxpayer, of his specified portion of the property shall be deemed to be the fair market value of his specified portion of the property at the time of its acquisition by the trust; and

(d) to dispose of his specified portion of each property of the trust at the earlier of

(i) the date the trust disposes of the property, and

(ii) the date the taxpayer disposes of the interest in the trust,

for proceeds equal to

(iii) where subparagraph (i) applies, the proceeds of disposition to the trust of his specified portion of the property, and

(iv) where subparagraph (ii) applies, the fair market value, immediately before the disposition of the interest, of his specified portion of the property.

(2) The election by a trust under subsection (1) shall be made by the trust filing a prescribed form with the Minister and shall be applicable in respect of the period commencing 15 months before the date of filing thereof (or such later time as the trust may designate in its election) and ending at such time as the election is revoked by the trust filing with the Minister a notice of revocation (or at such earlier time within the 15 month period immediately preceding the date on which the notice of revocation is filed with the Minister as the trust may designate in its notice of revocation).

(3) In this section, "qualified trust" means a trust, other than a registered investment or a trust that is prescribed to be a small business investment trust, where

(a) each trustee thereof is a corporation that is licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee or a person who is a trustee of a trust governed by a registered pension fund or plan;

(b) the interests of the beneficiaries thereunder are described by reference to units of the trust that are identical in all respects and any difference between the interest in the trust of each beneficiary and the interest in the trust of each other beneficiary is dependent solely on the difference in the number of units held by such beneficiaries;

(c) it has never borrowed money;

(d) it has never accepted deposits; and

(e) it complies with prescribed conditions."

(2) Subsection (1) is applicable with respect to periods occurring after 1985.

(1) Section 86 of an Act to amend the Income Tax Act and related statutes, being chapter 45 of the Statutes of Canada, 1984, is repealed and the following substituted therefor:

"86.(1) Paragraph 206(2)(e.1) of the said Act is repealed and the following substituted therefor:

"(e.1) any property that, under the terms or conditions thereof or any agreement relating thereto, is convertible into, is exchangeable for or confers a right to acquire, property that is foreign property, but not including property that is

(i) a share of the capital stock of a Canadian corporation listed on a prescribed stock exchange in Canada, or

(ii) a right issued before 1984 and listed on a prescribed stock exchange in Canada to acquire a share of the capital stock of a Canadian corporation,"

(2) Subsection (1) is applicable after 1983."

(2) Subsection (1) shall be deemed to have come into force on December 20, 1984.

SCHEDULE

1. All that portion of subsection 400(2) of the Income Tax Regulations preceding paragraph (a) is revoked and the following substituted therefor:

"(2) For the purposes of this Part and subsection 112(2) of the Act, "permanent establishment" means a fixed place of business of the corporation, including an office, a branch, a mine, an oil well, a farm, a timberland, a factory, a workshop or a warehouse, and"

2.(1) Subsection 4900(1) of the said Regulations is amended by striking out the word "or" at the end of paragraph (j) thereof, by adding the word "or" at the end of paragraph (k) thereof and by adding thereto the following paragraph:

"(l) a bond, debenture, note or similar obligation issued or guaranteed by

(i) the International Bank for Reconstruction and Development,

(ii) the Inter-American Development Bank,

(iii) the Asian Development Bank, or

(iv) the Caribbean Development Bank."

(2) Section 4900 the said Regulations is further amended by adding thereto the following subsections:

"(6) For the purposes of subparagraphs 146(1)(g)(iv) and 146.3(1)(d)(iii) of the Act, except as provided in subsections (8) and (9), a property is hereby prescribed to be a qualified investment for a trust governed by a registered retirement savings plan or a registered retirement income fund at any time if at that time the property is

(a) a share of the capital stock of an eligible corporation (within the meaning assigned by subsection 5100(1)), unless the annuitant under the plan or fund is a designated shareholder of the corporation; or

(b) an interest

(i) of a limited partner in a small business investment limited partnership, or

(ii) in a small business investment trust.

(7) For the purposes of subparagraph 204(e)(x) of the Act, except as provided in subsection (10), a property is hereby prescribed to be a qualified investment for a trust governed by a deferred profit sharing plan or revoked plan at any time if at that time the property is an interest

(a) of a limited partner in a small business investment limited partnership, or

(b) in a small business investment trust.

(8) For the purposes of subsection (6), where

(a) a trust governed by a registered retirement savings plan or a registered retirement income fund holds

(i) a small business security, or

(ii) an interest in a small business investment limited partnership, or in a small business investment trust, that holds a small business security, and

(b) the annuitant under the plan or fund provides services to or for the issuer of the small business security or a person related thereto and it may reasonably be considered, having regard to all the circumstances including the terms and conditions of the small business security or any agreement relating thereto and the rate of interest or the dividend provided on the small business security, that the small business security would not have been issued but for the fact that the annuitant of the plan or fund provided the services,

the small business security or the interest in the partnership or trust, as the case may be, shall be deemed not to be a qualified investment for the plan or fund.

(9) For the purposes of subsection (6), where

(a) a trust governed by a registered retirement savings plan or a registered retirement income fund holds an interest

(i) of a limited partner in a small business investment limited partnership, or

(ii) in a small business investment trust, and

(b) the partnership or trust, as the case may be, holds a small business security of a corporation of which the annuitant under the plan or fund is a designated shareholder (referred to in this subsection as the "designated security"),

the interest in the partnership or trust, as the case may be, shall be deemed not to be a qualified investment for the plan or fund unless

(c) the cost amount to the partnership or trust, as the case may be, of the designated security cannot reasonably be considered to be based on the amount of capital contributed by the plan or fund to the partnership or trust, as the case may be,

(d) the partnership or trust, as the case may be, has no right of offset as regards the designated security in connection with the interest of the plan or fund in the partnership or trust, as the case may be,

(e) the partnership or trust, as the case may be, does not pledge, assign or in any way alienate property to effect any undertaking including any guarantee, covenant or agreement to purchase or repurchase the designated security, given to ensure that

(i) any loss that the partnership or trust, as the case may be, may sustain by virtue of the ownership, holding or disposing of the designated security is limited in any respect, or

(ii) the partnership or trust will derive earnings by virtue of the ownership, holding or disposition of the designated security, and

(f) in the case of

(i) a partnership, there are more than 10 limited partners and no limited partner held more than 10%, and no group of limited partners who did not deal with each other at arm's length held in aggregate more than 10%, of the units of the partnership, or

(ii) a trust, there are more than 10 beneficiaries and no beneficiary held more than 10%, and no group of beneficiaries who did not deal with each other at arm's length held in aggregate more than 10%, of the units of the trust.

(10) For the purposes of subsection (7), where

(a) a trust governed by a deferred profit sharing plan or a revoked plan holds an interest in

(i) a small business investment limited partnership, or

(ii) a small business investment trust

that holds a small business security of a corporation,

(b) payments have been made in trust to a trustee under the plan for the benefit of beneficiaries thereunder by the corporation or a corporation related thereto, and

(c) the small business security is not a share described in paragraph 204(e)(vi) of the Act,

the interest referred to in paragraph (a) shall be deemed not to be a qualified investment for the trust."

3.(1) Subsection 4901(2) of the said Regulations is amended by adding thereto, in alphabetical order within the subsection, the following definitions:

""designated shareholder" of a corporation at any time means a taxpayer who at that time

(a) is or is related to a specified shareholder or a person who would be a specified shareholder of the corporation if, in applying the definition of specified shareholder, a person who has a right under a contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently, to or to acquire shares of the capital stock of a corporation were deemed to own those shares, where one of the main reasons for the existence of the right may reasonably be considered to be that the person not be a specified shareholder of the corporation,

(b) is or is related to a member of a partnership any member or group of members of which controls, or is in a position to control, the corporation directly or indirectly in any manner whatever,

(c) is or is related to a beneficiary under a trust that controls the corporation directly or indirectly in any manner whatever,

(d) is or is related to an employee of the corporation or a corporation related thereto, where any group of employees of the corporation or of the related corporation, as the case may be, controls or is in a position to control the corporation directly or indirectly in any manner whatever, unless the corporation is controlled directly or indirectly in any manner whatever by a person or a related group, or

(e) does not deal at arm's length with the corporation;

"small business investment limited partnership" has the meaning assigned by subsection 5100(4);

"small business investment trust" has the meaning assigned by subsection 5100(5); and

"small business security" has the meaning assigned by subsection 5100(2)."

4.(1) Section 5000 of the said Regulations is amended by adding thereto, immediately after subsection (1), the following subsection:

"(1.1) For the purposes of paragraph (i) of the definition of foreign property in subsection 206(1) of the Act, the following interests are prescribed interests:

(a) an interest of a limited partner in a small business investment limited partnership (within the meaning assigned by subsection 5100(4)), and

(b) an interest in a small business investment trust (within the meaning assigned by subsection 5100(5))."

5. Part LI of the said Regulations is revoked and the following substituted therefor:

"Part LI

Deferred Income Plans, Investments in Small Business

5100.(1) In this Part,

"designated rate" for a taxation year means 150% of the arithmetic mean of the specified rates per annum (within the meaning assigned by section 4301) for the quarterly periods ending in the year;

"eligible corporation" means

(a) a taxable Canadian corporation all or substantially all of the property of which is used by it in carrying on a qualifying active business, but does not include

(i) a corporation that is a taxpayer described in subsection 39(5) of the Act,

(ii) a corporation controlled directly or indirectly in any manner whatever by one or more non-resident persons, or

(iii) a venture capital corporation, and

(b) a prescribed venture capital corporation prescribed by section 6700;

"qualifying active business" means any business carried on primarily in Canada but does not include

(a) a business (other than a business of leasing property other than real property) the principal purpose of which is to derive income from property (including interest, dividends, rent and royalties), or

(b) a business of deriving gains from the disposition of property (other than property described in the inventory in respect of the business);

"specified property" means property described in any of subparagraphs 204(e)(i), (ii), (iii) and (vii) of the Act.

(2) For the purposes of this Part and paragraph (a) of the definition of small business property in subsection 206(1) of the Act, "small business security" of a person at any time means his property that is at that time

(a) a share of the capital stock of an eligible corporation, or

(b) a debt obligation of an eligible corporation, other than a debt obligation

(i) that is secured in any manner whatever, including an encumbrance, guarantee, covenant or other assurance, unless by its terms it is subordinate to all other debt obligations of the corporation, or

(ii) that has an effective annual rate of return for any taxation year of the corporation ending after that time that may exceed,

(A) where the debt obligation specifies an invariant rate of interest, the designated rate for the taxation year which includes the day on which the obligation was issued, and

(B) in any other case, the designated rate for that taxation year,

if immediately after the time of acquisition thereof

(c) the aggregate of the fair market values, at the time of acquisition by the person, of all shares and debt obligations of the eligible corporation and all corporations associated therewith held by the person does not exceed $10,000,000; and

(d) the total assets (determined in accordance with generally accepted accounting principles on a consolidated or combined basis, where applicable) of the eligible corporation and all corporations associated therewith do not exceed $35,000,000.

(3) For the purposes of paragraph 149(1)(o.3) and paragraph (b) of the definition of small business property in subsection 206(1) of the Act, a corporation is a small business investment corporation at any time if it is a Canadian corporation incorporated after May 22, 1985 and at all times after it was incorporated and before that time

(a) all of the shares, and rights to acquire shares, of the capital stock of the corporation were owned by

(i) one or more registered pension funds or plans,

(ii) one or more trusts all the beneficiaries of which were registered pension funds or plans, or

(iii) one or more related segregated fund trusts (within the meaning assigned by paragraph 138.1(1)(a) of the Act) all the beneficiaries of which were registered pension funds or plans;

(b) its only undertaking was the investing of its funds and its investments consisted solely of

(i) small business securities,

(ii) interests of a limited partner in small business investment limited partnerships,

(iii) interests in small business investment trusts,

(iv) specified properties, or

(v) any combination of properties described in subparagraphs (i) to (iv),

and with respect to each property referred to in any of subparagraphs (i) to (iii), the corporation was the first person (other than a broker or dealer in securities) to have acquired the property and the corporation has owned the property continuously since it was so acquired;

(c) except for the first 3 months after it was incorporated, at least 80% of its investments consisted of properties referred to in any of subparagraphs (b)(i) to (iii);

(d) it did not hold more than 30%, and no group of persons who did not deal with each other at arm's length and of which it was a member held in aggregate more than 30%, of the outstanding shares of any class of voting stock of a corporation, except where all or any part of such shares were acquired in specified circumstances;

(e) it has not borrowed money; and

(f) it has not accepted deposits.

(4) For the purposes of this section and paragraph (c) of the definition of small business property in subsection 206(1) of the Act, a partnership is a small business investment limited partnership at any time if at all times after it was formed and before that time

(a) it had only one general partner and

(i) his share as general partner in any income of the partnership from any source or from sources in a particular place, as the case may be, was the same as his share as general partner in any loss from that source or from sources in that place,

(ii) his share as general partner in any income or loss of the partnership from any source or from sources in a particular place, as the case may be, was the same as his share as general partner in the income or loss of the partnership from any other source or from sources in any other place, as the case may be, and

(iii) his share as general partner in any income or loss of the partnership for any fiscal period was the same as his share as general partner in the income or loss of the partnership for any other fiscal period;

(b) the interests of the limited partners were described by reference to units of the partnership that were identical in all respects and

(i) any difference between the interest in the partnership of each limited partner and the interest in the partnership of each other limited partner was dependent solely on the difference in the number of units held by such limited partners, and

(ii) no limited partner held more than 30%, and no group of limited partners who did not deal with each other at arm's length held in aggregate more than 30%, of the units of the partnership; and

(c) its only undertaking was the investing of its funds and its investments consisted solely of

(i) small business securities where the partnership was the first person (other than a broker or dealer in securities) to have acquired the securities and it has owned the securities continuously since they were so acquired,

(ii) specified properties, or

(iii) any combination of properties described in subparagraph (i) or (ii);

(d) the aggregate of the fair market values, at the time of acquisition, of specified properties held by the partnership at any particular time did not exceed the aggregate of

(i) 100% of the proceeds received by the partnership from any issue of limited partnership interests or any additional capital contributions received at any time in the 12 preceding months ending before the particular time,

(ii) 40% of the proceeds received by the partnership from any issue of limited partnership interests or any additional capital contributions received at any time in the 24 preceding months ending before the particular time but not including any proceeds or contributions referred to under subparagraph (i), and

(iii) 20% of the amount, if any, by which the aggregate of the fair market values, at the time of acquisition, of all properties of the partnership held at the particular time exceeds the aggregate of the proceeds received by the partnership from the issue of limited partnership interests or any additional capital contributions received in the 24 preceding months ending before the particular time;

(e) it did not hold more than 30% of the outstanding shares of any class of voting stock of a corporation, except where all or any part of such shares were acquired in specified circumstances;

(f) it has not borrowed money; and

(g) it has not accepted deposits.

(5) For the purposes of this section and subsection 259(3) and paragraph (d) of the definition of small business property in subsection 206(1) of the Act, a trust is a small business investment trust at any time if at all times since it was created and before that time

(a) it was resident in Canada;

(b) the interests of the beneficiaries under the trust were described by reference to units of the trust that were identical in all respects and

(i) any difference between the interest in the trust of each beneficiary and the interest in the trust of each other beneficiary was dependent solely on the difference in the number of units held by such beneficiaries, and

(ii) no beneficiary held more than 30%, and no group of beneficiaries who did not deal with each other at arm's length held more than 30%, of the units of the trust;

(c) its only undertaking was the investing of its funds and its investments consisted solely of

(i) small business securities where the trust was the first person (other than a broker or dealer in securities) to have acquired the securities and it has owned the securities continuously since they were so acquired,

(ii) specified properties, or

(iii) any combination of properties described in subparagraph (i) or (ii);

(d) the aggregate of the fair market values, at the time of acquisition, of specified properties held by the trust at any particular time did not exceed the aggregate of

(i) 100% of the proceeds received by the trust from any issue of trust interests in the 12 preceding months ending before the particular time,

(ii) 40% of the proceeds received by the trust from any issue of trust interests in the 24 preceding months ending before the particular time but not including any proceeds referred to in subparagraph (i), and

(iii) 20% of the amount, if any, by which the aggregate of the fair market values, at the time of acquisition, of all properties of the trust held at the particular time exceeds the aggregate proceeds received by the trust from the issue of trust interests in the 24 preceding months ending before the particular time;

(e) it did not hold more than 30% of the outstanding shares of any class of voting stock of a corporation except where all or any part of such shares were acquired in specified circumstances;

(f) it has not borrowed money; and

(g) it has not accepted deposits.

(6) For the purposes of this Part, a person shall be considered to have acquired shares of a class of the capital stock of a corporation in specified circumstances where

(a) the shares were acquired

(i) as part of a proposal to, or an arrangement with, the corporation's creditors that has been approved by a court under the Bankruptcy Act,

(ii) at a time when all or substantially all of the corporation's assets were under the control of a receiver, receiver-manager, sequestrator or trustee in bankruptcy, or

(iii) at a time when, by reason of financial difficulty, the corporation was in default, or could reasonably be expected to default, on a debt obligation held by a person with whom the corporation was dealing at arm's length

and the shares have not been held for more than 12 months (or such longer period as the Minister may specify), or

(b) the shares were acquired for the purposes of facilitating the disposition of the entire investment of the person in the corporation and have not been held for more than 6 months (or such longer period as the Minister may specify).

(7) Where the purchaser of a property that, but for this subsection, would at the time of its acquisition be a small business security (or, where the purchaser is a partnership, a member thereof) knew or ought to have known at the time of acquisition that the property would, within the immediately following 24 months, cease to qualify as a small business security, the property shall be deemed never to have been a small business security of the purchaser.

(8) Where a property that qualified as a small business security when it was acquired ceases at a subsequent time to so qualify, the property shall be deemed to be a small business security for the 18 months immediately following that subsequent time.

(9) For the purposes of this Part, a partnership shall be deemed to be a person."

6. Sections 1 to 5 are effective in respect of the period before the Regulations are published in the Canada Gazette commencing November 1, 1985.

SCHEDULE

1. Paragraph 4(b) of Schedule III to the Pension Benefits Standards Regulations is revoked and the following substituted therefor:

> "(b) this section shall be deemed not to affect the restrictions imposed by sections 1 and 2 of this Schedule on investments in mortgages or hypothecs or on loans on the security of real estate, leaseholds or Canadian resource property or on the purchase by or on behalf of a pension plan of more than 30 per cent of the common shares issued by a corporation other than a corporation referred to in paragraph 149(1)(o.3) of the Income Tax Act."

2. Section 1 is effective in respect of the period before this Regulation is published in the Canada Gazette commencing November 1, 1985.

Department of Finance Canada

Ministère des Finances Canada

Release Communiqué

Immediate release

Ottawa, November 4, 1985
85-190

BILL TO PHASE OUT PGRT INTRODUCED IN COMMONS

The Honourable Barbara McDougall, Minister of State for Finance, today introduced in the House of Commons a bill to implement a number of measures announced in the Western Accord and in the May 23, 1985 federal budget with respect to the Petroleum and Gas Revenue Tax (PGRT).

"This legislation is in keeping with the spirit of the government's overall energy policy as expressed in the Western Accord," Mrs. McDougall said. It represents a major initiative designed to remove the discriminatory and unfair treatment of companies and individuals striving to develop Canada's energy potential."

The main change proposed in the legislation would phase out the PGRT by the end of 1988. It also provides that new production after March 31, 1985 will be exempt from the provisions of the PGRT. For individuals, the first $10,000 of production and royalty income will be exempt from the PGRT. The incremental oil revenue tax imposed under the PGRT Act is removed, effective for production after 1984.

An amendment to the Income Tax Act would also introduce a mechanism whereby corporations will be permitted to reduce their PGRT liability through the unused portion of their income tax deductions relating to new Canadian exploration and development expenses.

To assist in a full understanding of the proposed changes, the Minister also released technical notes which explain the amendments.

For further information:

Al Katiya
Tax Policy and Legislation Branch
(613) 996-0597

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

85-192

For immediate release

Ottawa, November 6, 1985

MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for August 1985 and the first five months of the 1985-86 fiscal year.

For August, budgetary revenues were $5,342 million, budgetary expenditures were $7,857 million and there was a deficit of $2,515 million. For 1984, revenues were $4,773 million, expenditures were $7,775 million and there was a deficit of $3,002 million.

For the first five months of the 1985-86 fiscal year, revenues were $24,759 million, expenditures were $38,849 million and there was a deficit of $14,090 million. For the same period last year, revenues were $22,068 million, expenditures were $36,384 million and there was a deficit of $14,316 million.

Publication immédiate

Ottawa, le 6 novembre 1985

ETATS MENSUELS DES OPERATIONS FINANCIERES

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois d'août 1985 et les cinq premiers mois de l'année financière 1985-86.

Les chiffres budgétaires d'août montrent des recettes de $5,342 millions, des dépenses de $7,857 millions et un déficit de $2,515 millions. En 1984 les recettes s'établissaient à $4,773 millions, les dépenses à $7,775 millions, et le déficit à $3,002 millions.

Les cinq premiers mois de l'année financière 1985-86 ont produit des recettes de $24,759 millions contre des dépenses de $38,849 millions d'où un déficit de $14,090 millions. La période correspondante de l'an dernier avait donné des recettes de $22,068 millions, des dépenses de $36,384 millions et un déficit de $14,316 millions.

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Immediate release
Ottawa, November 6, 1985
85-193

1985-86 CANADA SAVINGS BOND ISSUE TO BE WITHDRAWN FROM SALE

The Honourable Michael Wilson, Minister of Finance, today announced that the 1985-86 Series of Canada Savings Bonds will be withdrawn from sale at the close of business on Friday, November 8, 1985. All applications received up to that time will be accepted, but in all cases payment arrangements must be dated no later than November 8. For the Payroll Savings Plan, bulk applications will continue to be accepted until November 19, 1985.

Mr. Wilson said that cash sales are being terminated on this date since public demand for the new issue is sufficient to meet the government's financing requirements from the current campaign. Sales results will be announced towards the end of November.

This announcement conforms with the provisions of this issue which stated that sales of the 1985-86 Series of Canada Savings Bonds may be terminated at any time, at the discretion of the Minister of Finance.

Publication immédiate
Ottawa, le 6 novembre 1985
85-193

LA VENTE D'OBLIGATIONS D'ÉPARGNE DU CANADA 1985-86 PRENDRA FIN

L'honorable Michael Wilson, ministre des Finances, a annoncé qu'il mettait fin aux ventes de l'émission 1985-86 d'Obligations d'épargne du Canada à la clôture des affaires le vendredi 8 novembre 1985. Toutes les demandes reçues à cette date seront acceptées, mais dans tous les cas les arrangements de paiement devront être datés au plus tard le 8 novembre. Dans le cas du Mode d'épargne sur le salaire, les souscriptions collectives continueront d'être acceptées jusqu'au 19 novembre 1985.

M. Wilson a précisé qu'il mettait fin aux ventes au comptant à cette date étant donné que l'intérêt public suscité par cette émission suffira à satisfaire les besoins financiers du gouvernement aux fins de cette campagne. Le résultat des ventes sera annoncé vers la fin de novembre.

Cette annonce est conforme aux dispositions de cette émission, laquelle prévoit que le ministre des Finances peut mettre fin aux ventes de l'émission 1985-86 d'Obligations d'épargne du Canada en tout temps à sa discrétion.

Canada

Ottawa, Canada K1A 0G5
613 992-1573

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

85-219

For immediate release

Ottawa, December 12, 1985

MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for September 1985 and the first six months of the 1985-86 fiscal year.

For September 1985, budgetary revenues were $5,330 million, budgetary expenditures were $8,116 million and there was a deficit of $2,786 million. For September 1984, revenues were $4,947 million, expenditures were $7,601 million and there was a deficit of $2,654 million.

For the first six months of the 1985-86 fiscal year, revenues were $30,089 million, expenditures were $46,965 million and there was a deficit of $16,876 million. For the same period last year, revenues were $27,015 million, expenditures were $43,984 million and there was a deficit of $16,969 million.

Publication immédiate

Ottawa, le 12 décembre 1985

ETATS MENSUELS DES OPERATIONS FINANCIERES

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois de septembre 1985 et les six premiers mois de l'année financière 1985-86.

Les chiffres budgétaires de septembre 1985 montrent des recettes de $5,330 millions, des dépenses de $8,116 millions et un déficit de $2,786 millions. En septembre 1984, les recettes s'établissaient à $4,947 millions, les dépenses à $7,601 millions et le déficit à $2,654 millions.

Les six premiers mois de l'année financière 1985-86 ont produit des recettes de $30,089 millions contre des dépenses de $46,965 millions d'où un déficit de $16,876 millions. La période correspondante de l'an dernier avait donné des recettes de $27,015 millions, des dépenses de $43,984 millions et un déficit de $16,969 millions.

Canada

Ottawa, Canada K1A 0G5
613 992-1573